

# IIROC NOTICE

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

Dealer Member Rules

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**15-0206**  
**September 14, 2015**

## **Margin requirements for certain cash and security borrowing and lending arrangements - Amendments to Schedules 1, 7 and 7A of Dealer Member Form 1**

### **Summary**

The applicable securities regulatory authorities have approved the amendments to Schedule 1, 7 and 7A of Dealer Member Form 1 (collectively, the “Amendments”) regarding the margin requirements for certain cash and security borrowing and lending arrangements, which were published for comment in [Rules Notice 15-0053](#). The Amendments are set out in Attachment A and are effective on October 1, 2015. The Amendments provide that:

- qualifying principal cash and security borrowing and lending agreements, between a Dealer Member and an “acceptable counterparty” and a “regulated entity”, are subject to margin requirements that reflect the risk of loss associated with such arrangements and are comparable; and
- qualifying agency security borrowing and lending agreements are subject to the margin requirements that reflect the risk of loss associated with such arrangements.



## Issues and specific amendments

### **Key issue**

A key issue addressed in the Amendments concerns certain agency security borrowing and lending arrangements. In general, security borrowing/lending transactions expose Dealer Members to potential loss despite the fact that they are collateralized transactions. The exposure results from the fact that (i) borrowings of securities by Dealer Members are typically modestly over-collateralized, (ii) both the borrowed security and collateral values may fluctuate over time giving rise to further mismatches in coverage, and (iii) in the event of the insolvency of the Dealer Member's counterparty, it may be difficult and time consuming to recover the collateral and close out the transaction – while market values continue to fluctuate.

Tri-party agency arrangements have risk protection features that mitigate a Dealer Member's risk of loss through the use of a third party custodian which stands between the borrower and lender and holds, as agent, the collateral supporting the loan on the lender's behalf. These risk protection features are:

- (1) the collateral is held by the third party custodian agent, who qualifies as a “financial intermediary” under the Eligible Financial Contract Rules (*Bankruptcy and Insolvency Act*), and will not be released to the underlying principal customer. In the event of a default by the Dealer Member, the custodian would liquidate the collateral, purchase the loaned securities in the market with the proceeds and return remaining proceeds, if any, to the Dealer Member; and
- (2) the agency arrangement qualifies as an “eligible financial contract” under the Eligible Financial Contract Rules (*Bankruptcy and Insolvency Act*) and therefore, in the event of an insolvency of either the custodian agent or the underlying principal customer, the collateral does not form part of the insolvent party's estate and can be quickly returned to the Dealer Member.

As a result, these agency arrangements are considered by IIROC Staff to be at most no more risky than a bi-lateral security borrowing and lending agreement between the Dealer Member and the third party custodian, as if it was acting as principal.

Consequently, under the amendments, these agency arrangements would be treated, for margin purposes, in the same way as the equivalent principal arrangement would have been between the Dealer Member and the custodian, and therefore margined according to the counterparty credit risk classification of the custodian.

Typically, custodians that are active in the security borrowing and lending business are financial institutions (e.g. CIBC Mellon, BNY Mellon, State Street) that meet the definition of



“acceptable institutions” and are considered the lowest credit risk clients under IIROC’s counterparty credit risk classification.

### **Current rules**

#### *Background on cash/securities loan arrangements*

A cash/securities loan is an agreement that is executed between a Dealer Member and another entity (the “counterparty”). The terms of the loan are governed by a loan agreement, which requires that the borrower provide the lender with collateral, in the form of cash or securities, of a value equal to or greater than the loaned cash/securities. Major lenders of securities include investment funds, insurance companies, pension plans and other large investment portfolios. Securities borrowing is an important tool used by hedge funds and other investment vehicles that follow a “short sale” strategy, to meet their transaction settlement obligations.

#### *Current margin requirements*

The current margin requirements for cash/securities loans allow Dealer Members to enter into such loans on:

- an unsecured basis with “acceptable institution”<sup>1</sup> counterparties;
- a modestly over-collateralized basis<sup>2</sup> with “acceptable counterparty”<sup>3</sup> counterparties;
- a “value for value” basis with “regulated entity”<sup>4</sup> counterparties; and
- a “loan value equivalency”<sup>5</sup> basis with “other”<sup>6</sup> counterparties

The effects of these margin requirements are to limit, in the case of a securities borrowing arrangement, the dollar amount of collateral that may be delivered by the borrower to the lending counterparty.

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<sup>1</sup> See Attachment C for a description of “acceptable institutions”.

<sup>2</sup> Transactions that involve a modest amount of over-collateralization are transactions where the market value of the cash or securities provided as loan collateral by investment dealer is slightly in excess of the market value of the cash or securities received in by the investment dealer pursuant to the loan arrangement. Street practice is to require 102% over-collateralization when cash is provided as loan collateral and 105% over-collateralization when securities are provided as loan collateral.

<sup>3</sup> See Attachment C for a description of “acceptable counterparties”.

<sup>4</sup> See Attachment C for a description of “regulated entities”.

<sup>5</sup> Transactions performed on a “loan value equivalency” basis are those where the loan value of the cash or securities (which is market value less margin) received in by the investment dealer is equal to the loan value of the cash or securities delivered out by the investment dealer.

<sup>6</sup> See Attachment C for a description of “other” counterparties.



### *Concerns with current margin requirements*

There are two concerns with the current margin requirements:

- (i) the current rules do not set out specific margin requirements for agency cash and security borrowing and lending arrangements; and
- (ii) the current rules do not impose the same margin requirements on cash and security borrowing and lending arrangements with “acceptable counterparty” versus “regulated entity” counterparties.

### *Agency agreements*

Within the last year there has been a significant shift away from Dealer Members entering into cash and security borrowing and lending arrangements directly with the arrangement counterparty. Rather, the recent trend is for Dealer Members to execute an agency arrangement, whereby the Dealer Member enters into cash and security borrowing and lending arrangement with a third party custodian, who is acting as agent for the ultimate counterparty (also referred to as the underlying principal counterparty) to the arrangement. These agency arrangements have the following features:

- the third party custodian agent typically qualifies as an “acceptable institution” and administers an agency lending program on behalf of its clients;
- pursuant to the agency lending arrangements that are executed:
  - the loan collateral is held by the third party custodian agent and if the loan collateral includes securities the agent cannot re-hypothecate those securities;
  - in the event the Dealer Member defaults, the loan collateral that has been posted with the third party custodian agent will be liquidated by the third party custodian agent and the proceeds used to purchase the borrowed security, which will be returned to the underlying principal lender. If the borrowed security cannot be purchased in the market, its equivalent value is returned to the underlying principal lender. Any excess value on the realization on the loan collateral will be returned by the third party custodian agent to the Dealer Member;
  - the agency agreement qualifies as an “Eligible Financial Contract” under Canadian legislation relating to bankruptcy, insolvency and creditor’s rights, where the third party custodian agent meets the definition of “financial intermediary” in relation to the Eligible Financial Contract General Rules (*Bankruptcy and Insolvency Act*), which means that the contract continues in the event that any party to the contract becomes insolvent, and the collateral does not form part of either the custodian’s or the ultimate counterparty’s estate in the event of an insolvency of either of them.



Given the features of these agency arrangements, IIROC Staff have concluded that the risk assumed by a Dealer Member when entering into one of these arrangements is no greater than the risk assumed by a Dealer Member when entering directly into an equivalent “principal” arrangement with the third party custodian agent. Furthermore, there is an argument to be made that the risk is lower as the Dealer Member:

- will not have its collateral frozen, should the ultimate counterparty become insolvent; and
- will be able to quickly access its collateral, should the custodian become insolvent, because the agency lending arrangement qualifies as an “Eligible Financial Contract”.

The current notes and instructions to Schedules 1 and 7 of Dealer Member Form 1 do not discuss these specific types of agency arrangements, nor do they recognize that the risk of such arrangements is equivalent to comparable “principal” arrangements. The result is that Dealer Members are required to “look through” the third party custodian agent to determine the entity that is the ultimate counterparty under the current IIROC margin rules, and provide additional margin for such arrangements in amounts that represent as much as 3% of the market value of the loan.

*Different margin requirements for arrangements involving “acceptable counterparty” versus “regulated entity” counterparties*

As a general rule, IIROC’s rules allow Dealer Members to transact with other regulated dealers on a “value for value” basis, with mark to market imposed on outstanding transactions, without capital penalty. This general rule currently applies to all cash and security borrowing and lending arrangements between a Dealer Member and:

- another Dealer Member; and
- another dealer that qualifies as a “regulated entity”, such as a FINRA dealer.

Notwithstanding this fact, it is now common street practice for Dealer Members to be asked to provide collateral with a value in excess of the amount of the loan when entering into cash and security borrowing and lending arrangements with regulated entities (i.e. other Dealer Members and foreign dealers).

The current IIROC rules that apply to cash and security borrowing and lending arrangements, where the counterparty is an “acceptable counterparty” allow for delivery of excess collateral representing between 102% and 105% of the amount of the loan without any margin implication. As credit risk exposures to “acceptable counterparties” and “regulated entities” are treated the same way for all other transactions, there is no risk-related reason why a modest amount of excess collateral should not be permitted for cash and security borrowing and



lending arrangements where the counterparty is a “regulated entity”, without similar margin relief. Without this relief, Dealer Members are required under the current IIROC margin rules to provide margin, that represents as much as 5% of the market value of the loan, in instances where a modest amount of over-collateralization is requested.

### **Amendments**

To address the concerns with the current margin requirements, specifically that the current rules:

- do not set out specific margin requirements for agency cash and security borrowing and lending arrangements, and
- do not impose the same margin requirements on cash and security borrowing and lending arrangements with “acceptable counterparty” versus “regulated entity” counterparties,

the following amendments to that the Notes and Instructions to Schedules 1 and 7 and Schedule 7A of Dealer Member Form 1 are being made:

- (i) Amend the definition of “excess collateral deficiency” that appears in Note 2 of the Notes and Instructions to Schedules 1 and 7, such that margin only applies when the collateral provided is in excess of:
  - 102% of the loan when the collateral provided is cash; and
  - 105% of the loan when the collateral provided is in the form of securities.

In addition, the following non-material amendments have been added to the definition of “excess collateral deficiency” that appears in Note 2 of the Notes and Instructions to Schedules 1 and 7 to make the definition clearer:

- ““cash loans receivable” are loan transactions where the purpose of the loan is for the Dealer Member to lend cash and receive securities as collateral from the counterparty”;
- ““securities borrow arrangements” are loan transactions where the purpose of the loan is for the Dealer Member to borrow securities and deliver cash or securities as collateral to the counterparty”;
- ““cash loans payable” are loan transactions where the purpose of the loan is for the Dealer Member to borrow cash and deliver securities as collateral to the counterparty”; and



- ““securities loan arrangements” are loan transactions where the purpose of the loan is for the Dealer Member to lend securities and receive cash or securities as collateral from the counterparty”.
- (ii) Introduce new Note 5(b) to the Notes and Instructions to Schedules 1 and 7 to specify the margin requirements for cash loans receivable and cash loans payable. In addition, the following non-material amendments to Note 5 to the Notes and Instructions to Schedules 1 and 7 have been made:
- for Schedule 1, the two arrangements “Cash loans receivable and securities borrowed arrangements” have been separated into “Cash loans receivable” and “Securities borrow arrangements” and “Securities borrow arrangements” will be in new Note 6 and the other subsequent Notes renumbered accordingly, each arrangement will have its own “Written agreement requirements”, “Additional written agreement requirements for certain agency agreements” (does not apply to cash loan receivable), “Margin requirements” in order to make the requirements for each arrangement clearer; and
  - for Schedule 7, the two arrangements “Cash loans payable and securities loan arrangements” have been separated into “Cash loans payable” and “Securities loan arrangements” and “Securities loan arrangements” will be new Note 6 and the other subsequent Notes renumbered accordingly, each arrangement will have its own “Written agreement requirements”, “Additional written agreement requirements for certain agency agreements” (does not apply to cash loans payable), “Margin requirements” in order to make the requirements for each arrangement clearer.
- (iii) The following material amendments have been made under new Note 6(b) to the Notes and Instructions to Schedules 1 and 7 with respect to the additional written agreement requirements for certain agency agreements where the agent may be treated as equivalent to principal:
- the loan collateral must be held by the third party custodian agent and if the loan collateral is made up of securities there must be no right to re-hypothecate those securities. This no re-hypothecation of collateral requirement is limited to collateral provided in the form of securities, because it is normal market practice for third party custodian agents to use the cash it receives as collateral in its business;
  - the default process that describes one of the additional risk protection features of the security borrowing and lending agency arrangement that must be met;



- the third party custodian agent must meet the definition of “financial intermediary” in relation to the Eligible Financial Contract General Rules (*Bankruptcy and Insolvency Act*)—the definition of “financial intermediary” is available on the Justice Laws Website: <http://laws-lois.justice.gc.ca/eng/regulations/SOR-2007-256/FullText.html>; and
  - the criteria to clarify when the agency arrangement must not be treated in the same manner as an equivalent principal arrangement between the Dealer Member and the custodian and, in those cases, how the agency arrangement is to be treated.
- (iv) The following material amendments have been made under new Note 6(c) to the Notes and Instructions to Schedules 1 and 7 with respect to margin requirements that:
- add various situations in which an agency agreement could differ and include their corresponding treatment in order to clarify the margin requirements for agency security borrowing and lending arrangements under various situations.
- (v) Amend under new Note 7(b) to the Notes and Instructions to Schedules 1 and 7 to set “market value deficiency” as the standard margin requirement for resale and repurchase agreements involving “acceptable counterparties” and “regulated entities”—while the current rules do allow over-collateralization for certain resale and repurchase agreements involving “acceptable counterparties”, this margin requirement is being amended from “excess collateral deficiency” to “market value deficiency” because:
- overcollateralization is not a common practice for repurchase and resale agreements; and
  - allowing the continued overcollateralization for repurchase and resale agreements would run counter to Bank of Canada’s remarks on introducing “haircuts”<sup>7</sup> for these agreements in the near future.
- (vi) Amend Schedule 7A to extend the existing overcollateralization concentration test, that currently only applies to overcollateralization exposures to “acceptable counterparties”, to overcollateralization exposures to both “acceptable counterparties” and “regulated entities”.

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<sup>7</sup> Shedding Light on Shadow Banking: <http://www.bankofcanada.ca/2013/06/shedding-light-shadow-banking/>





## **Attachments**

- Attachment A - Amendments to Schedules 1, 7 and 7A [and related Notes and Instructions] of Dealer Member Form 1;
- Attachment B - Black-line comparison of amendments to Schedules 1, 7 and 7A [and related Notes and Instructions] of Dealer Member Form 1 to current Dealer Member Form 1;
- Attachment C - Discussion of four types of counterparties defined within IIROC's capital and margin rules; and
- Attachment D - Summary of margin impact of the amendments to certain cash and securities borrowing and lending arrangements.

**INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA**

**MARGIN REQUIREMENTS FOR CERTAIN CASH AND SECURITY BORROWING AND LENDING  
ARRANGEMENTS – AMENDMENTS TO SCHEDULES 1, 7 AND 7A OF DEALER MEMBER FORM 1**

**TEXT OF THE AMENDMENTS**

1. Dealer Member Form 1 is amended by repealing and replacing Schedules 1, 7 and 7A, and the Notes and Instructions thereto, with the following:

FORM 1, PART II – SCHEDULE 1

DATE: \_\_\_\_\_

\_\_\_\_\_  
(Dealer Member Name)

**ANALYSIS OF LOANS RECEIVABLE, SECURITIES BORROWED AND RESALE AGREEMENTS**

	<b>AMOUNT OF LOAN RECEIVABLE OR CASH DELIVERED AS COLLATERAL C\$'000 [see note 3]</b>	<b>MARKET VALUE OF SECURITIES DELIVERED AS COLLATERAL C\$'000 [see note 4]</b>	<b>MARKET VALUE OF SECURITIES RECEIVED AS COLLATERAL OR BORROWED C\$'000 [see note 4]</b>	<b>REQUIRED TO MARGIN C\$'000</b>
<b>LOANS RECEIVABLE:</b>				
1. <i>Acceptable institutions</i>	-----	N/A	-----	Nil
2. <i>Acceptable counterparties</i>	-----	N/A	-----	-----
3. <i>Regulated entities</i>	-----	N/A	-----	-----
4. Others [see note 14]	-----	N/A	-----	-----
<b>SECURITIES BORROWED:</b>				
5. <i>Acceptable institutions</i>	-----	-----	-----	Nil
6. <i>Acceptable counterparties</i>	-----	-----	-----	-----
7. <i>Regulated entities</i>	-----	-----	-----	-----
8. Others [see note 14]	-----	-----	-----	-----
<b>RESALE AGREEMENTS:</b>				
9. <i>Acceptable institutions</i>	-----	N/A	-----	Nil
10. <i>Acceptable counterparties</i>	-----	N/A	-----	-----
11. <i>Regulated entities</i>	-----	N/A	-----	-----
12. Others [see note 14]	-----	N/A	-----	-----
13. <b>TOTAL</b> [Lines 1 through 12]	-----		-----	-----
	A-6			B-9

[See notes and instructions]

Oct-2015

**FORM 1, PART II – SCHEDULE 1  
NOTES AND INSTRUCTIONS**

1. This schedule is to be completed for secured loan receivable transactions whereby the stated purpose of the transaction is to lend excess cash. All security borrowing and financing transactions done via 2 trade tickets, including resale transactions and those with related parties, should also be disclosed on this schedule.
2. For the purpose of this schedule,
  - (a) "cash loans receivable" are loan transactions where the purpose of the loan is for the Dealer Member to lend cash and receive securities as collateral from the counterparty;
  - (b) "excess collateral deficiency" is defined as:
    - (i) For cash loans receivable, any excess of the amount of the loan over the market value of the actual collateral received from the transaction counterparty;
    - or
    - (ii) For securities borrow arrangements, any excess of the market value of the actual collateral provided to the transaction counterparty over:
      - (A) 102% of the market value of the securities borrowed, where cash is provided as collateral; or
      - (B) 105% of the market value of the securities borrowed, where securities are provided as collateral.
  - and
  - (c) "securities borrow arrangements" are loan transactions where the purpose of the loan is for the Dealer Member to borrow securities and deliver cash or securities as collateral to the counterparty.
3. Include accrued interest in amount of loan receivable.
4. Market value of securities delivered or received as collateral should include accrued interest.
5. **Cash loans receivable**

**(a) Written agreement requirements**

Any written agreement for a cash loan receivable between the Dealer Member and a counterparty must include terms which provide:

- (i) For the rights of either party to retain or realize on securities held by it from the other party on default;
- (ii) For events of default;
- (iii) For the treatment of the value of securities held by a non-defaulting party in excess of amounts which may be owed by a defaulting party;
- (iv) Either for set-off or, in the case of secured loans of securities, continuous segregation of collateral and the requirement for the lender to perfect a security interest in collateral giving the highest priority; and
- (v) If set-off rights or security interests are created in securities provided as collateral by one party to another, that the securities are endorsed for transfer, where applicable, and free of any trading restrictions.

**(b) Margin requirements**

The margin requirements for a cash loan receivable are as follows:

- (i) Where a written agreement has not been entered into or the written agreement entered into does not include all of the required minimum terms in Note 5(a), the margin required shall be:
  - (A) Nil, where the counterparty to the transaction is an *acceptable institution* and the transaction has been confirmed with the *acceptable institution*, or

**FORM 1, PART II – SCHEDULE 1**  
**NOTES AND INSTRUCTIONS** [Continued]

(B) 100% of the market value of the actual collateral provided to the transaction counterparty.

- (ii) Where a written agreement has been entered into that includes all of the required minimum terms in Note 5(a), the margin required to be provided shall be determined according to the following table:

<b>Transaction counterparty type</b>	<b>Margin required</b>
<i>Acceptable institution</i>	No margin <sup>1</sup>
<i>Acceptable counterparty</i>	Excess collateral deficiency <sup>1</sup>
<i>Regulated entity</i>	Excess collateral deficiency <sup>1</sup>
Other	Margin
<sup>1</sup> Any transaction which has not been confirmed by an <i>acceptable institution, acceptable counterparty</i> or <i>regulated entity</i> within 15 business days of the trade shall be margined.	

**6. Securities borrow arrangements**

**(a) Written agreement requirements**

Any written agreement for a securities borrowing arrangement between the Dealer Member and a counterparty must include terms which provide:

- (i) For the rights of either party to retain or realize on securities held by it from the other party on default;
- (ii) For events of default;
- (iii) For the treatment of the value of securities held by a non-defaulting party in excess of amounts which may be owed by a defaulting party;
- (iv) Either for set-off or, in the case of secured loans of securities, continuous segregation of collateral and the requirement for the lender to perfect a security interest in collateral giving the highest priority; and
- (v) If set-off rights or security interests are created in securities borrowed or securities provided as collateral by one party to another, that the securities are endorsed for transfer, where applicable, and free of any trading restrictions.

**(b) Additional written agreement requirements for certain agency agreements**

**Agency agreements where agent may be treated as equivalent to principal**

Any written collateral management or custodial agreement involving a securities borrowing arrangement between the Dealer Member and a third party custodian, which is acting as an agent, may be reported and treated in the same manner for margin purposes as the equivalent principal securities borrowing arrangement between the Dealer Member and the third party custodian, if all of the following additional terms [i.e. over and above those set out in Note 6(a)] are stipulated in the written agreement:

- (i) the loan collateral must be held by the third party custodian agent and if the loan collateral is made up of securities there must be no right to re-hypothecate those securities;
- (ii) in the event of the Dealer Member default, the loan collateral that has been posted with the third party custodian agent will be liquidated by the third party custodian agent and proceeds used to purchase the borrowed security which will be returned to the underlying principal lender. If the borrowed security cannot be purchased in the market, its equivalent value is returned to the underlying principal lender. Any excess value on the realization on the loan collateral will be returned by the third party custodian agent to the Dealer Member; and

**FORM 1, PART II – SCHEDULE 1**  
**NOTES AND INSTRUCTIONS** [Continued]

- (iii) the third party custodian agent must meet the definition of “financial intermediary” in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act).

**Agency agreements where agent must not be treated as equivalent to principal**

Where these additional terms [(i),(ii) and (iii) immediately above] are not all present or the arrangement does not involve an agent that is acting as a third party custodian, the Dealer Member must look through the agent in the agency arrangement to the underlying principal lender and the agency arrangement must be reported and treated in the same manner for margin purposes as the equivalent principal securities borrowing arrangement between the Dealer Member and the underlying principal lender.

**(c) Margin requirements**

The margin requirements for a securities borrowing arrangement are as follows:

- (i) Where a written agreement has not been entered into or the written agreement entered into does not include all of the required minimum terms in Note 6(a), the margin required shall be:
- (A) Nil, where the counterparty to the transaction is an *acceptable institution* and the transaction has been confirmed with the *acceptable institution*, or
- (B) 100% of the market value of the actual collateral provided to the transaction counterparty.
- (ii) Where a written agreement has been entered into that includes all of the required minimum terms in Note 6(a), for margin purposes:
- (A) For principal arrangements, the counterparty is the principal in the arrangement,
- (B) For agency arrangements, where a third party custodian agent is involved and all of the additional required minimum terms in Note 6(b) are present, the counterparty is the third party custodian,
- (C) For agency arrangements, where all of the additional required minimum terms in Note 6(b) are not present or the arrangement does not involve an agent that is acting as a third party custodian, the counterparty is the underlying principal lender,

the margin required to be provided shall be determined according to the following table:

<b>Transaction counterparty type</b>	<b>Margin required</b>
<i>Acceptable institution</i>	No margin <sup>1</sup>
<i>Acceptable counterparty</i>	Excess collateral deficiency <sup>1</sup>
<i>Regulated entity</i>	Excess collateral deficiency <sup>1</sup>
Other	Margin
<sup>1</sup> Any transaction which has not been confirmed by an <i>acceptable institution</i> , <i>acceptable counterparty</i> or <i>regulated entity</i> within 15 business days of the trade shall be margined.	

**7. Securities resale agreements**

**(a) Written agreement requirements**

Any written agreement for a securities resale agreement between the Dealer Member and a counterparty must include terms which provide:

- (i) For the rights of either party to retain or realize on securities held by it from the other party on default,
- (ii) For events of default,

**FORM 1, PART II – SCHEDULE 1**  
**NOTES AND INSTRUCTIONS** [Continued]

- (iii) For the treatment of the value of securities held by a non-defaulting party in excess of amounts which may be owed by a defaulting party,
- (iv) Either for set-off or, in the case of secured loans of securities, continuous segregation of collateral and the requirement for the lender to perfect a security interest in collateral giving the highest priority,
- (v) If set-off rights or security interests are created in securities sold or loaned by one party to another, that the securities are endorsed for transfer, where applicable, and free of any trading restrictions; and
- (vi) For an acknowledgement by the parties that either has the right, upon notice, to call for any shortfall in the difference between the collateral and the securities at any time.

**(b) Margin requirements**

The margin requirements for a securities resale agreement are as follows:

- (i) Where a written agreement has not been entered into or the written agreement entered into does not include all of the required minimum terms, the margin required to be provided shall be determined according to the following table:

Transaction counterparty type	Margin required based on term of transaction	
	30 calendar days or less after regular settlement <sup>1</sup>	Greater than 30 calendar days after regular settlement <sup>1</sup>
<i>Acceptable institution</i>	No margin <sup>2</sup>	
<i>Acceptable counterparty</i>	Market value deficiency <sup>2</sup>	Margin
<i>Regulated entity</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> Regular settlement means the settlement date or delivery date generally accepted according to industry practice for the relevant security in the market in which the transaction occurs. Margin is calculated from the date of regular settlement. Calendar days refer to the original term of the resale transaction.		
<sup>2</sup> Any transaction which has not been confirmed by an <i>acceptable institution</i> , <i>acceptable counterparty</i> or <i>regulated entity</i> within 15 business days of the trade shall be margined.		

- (ii) Where a written agreement has been entered into that includes all of the required minimum terms, the margin required to be provided shall be determined according to the following table:

Transaction counterparty type	Margin required
<i>Acceptable institution</i>	No margin <sup>1</sup>
<i>Acceptable counterparty</i>	Market value deficiency <sup>1</sup>
<i>Regulated entity</i>	Market value deficiency <sup>1</sup>
Other	Margin
<sup>1</sup> Any transaction which has not been confirmed by an <i>acceptable institution</i> , <i>acceptable counterparty</i> or <i>regulated entity</i> within 15 business days of the trade shall be margined.	

8. For any given counterparty a deficiency in one type of loan may be offset by an excess in another type of loan provided that there are written agreements for each type of loan which provide for the right of offset between each type of loan. In such case, the balances may also be offset for margin calculation purposes.

**FORM 1, PART II – SCHEDULE 1**  
**NOTES AND INSTRUCTIONS** [Continued]

9. In order for a pension fund to be treated as an *acceptable institution* for purposes of this Schedule, it must not only meet the *acceptable institution* criteria outlined in General Notes and Definitions, but the Dealer Member must also have received representation that the pension fund is legally able to enter into the obligations of the transaction. If such representation has not been received, the pension fund which otherwise meets the *acceptable institution* criteria must be treated as an *acceptable counterparty*.
10. **Lines 2, 3, 6 and 7** - In the case of a cash loan receivable or a securities borrowing arrangement between a Dealer Member and either an *acceptable counterparty* or a *regulated entity*, where an *excess collateral deficiency* exists, action must be taken to correct the deficiency. If no action is taken the amount of *excess collateral deficiency* must be immediately provided out of the Dealer Member's capital. In any case, where the deficiency exists for more than one business day, it must be provided out of the Dealer Member's capital.
11. **Lines 10 and 11** - In the case of a resale transaction between a Dealer Member and either an *acceptable counterparty* or a *regulated entity*, where a deficiency exists between the *market value* of the securities resold and the *market value* of the cash pledged, action must be taken to correct the deficiency. If no action is taken the amount of *market value* deficiency must be immediately provided out of the Dealer Member's capital. In any case, where the deficiency exists for more than one business day, it must be provided out of the Dealer Member's capital.
12. **Lines 4, 8 and 12** - In the case of a cash loan receivable or a securities borrowing or a resale arrangement / transaction between a Dealer Member and a party other than an *acceptable institution*, *acceptable counterparty* or *regulated entity*, where a deficiency exists between the loan value of the cash loaned or securities borrowed or resold and the loan value of the collateral or cash pledged, action must be taken to correct the deficiency. If no action is taken the amount of loan value deficiency must be immediately provided out of the Dealer Member's capital. The margin required may be reduced by any margin already provided on the collateral (e.g. in inventory). Where the collateral is either held by the Dealer Member on a fully segregated basis or held in escrow on its behalf by an Acceptable Depository or a bank or trust company qualifying as either an *acceptable institution* or *acceptable counterparty*, only the amount of *market value* deficiency need be provided out of the Dealer Member's capital. In any case, where the deficiency exists for more than one business day, it must be provided out of the Dealer Member's capital.
13. **Lines 5, 6 and 7** - In a securities borrowed transaction between a Dealer Member and an *acceptable institution*, *acceptable counterparty*, or *regulated entity*, where a letter of credit issued by a Schedule 1 Bank is used as collateral for the securities borrowed, there shall be no charge to the Dealer Member's capital for any excess of the value of the letter of credit pledged as collateral over the *market value* of the securities borrowed.
14. **Lines 4, 8 and 12** - Arrangements other than those regarding agency agreements where an agent may be treated as equivalent to principal in Note 6(b) whereby an *acceptable institution*, *acceptable counterparty*, or *regulated entity* is only acting as an agent (on behalf of an "other" party) should be reported and margined as "Others".



FORM 1, PART II – SCHEDULE 7

DATE: \_\_\_\_\_

\_\_\_\_\_  
(Dealer Member Name)

**ANALYSIS OF OVERDRAFTS, LOANS, SECURITIES LOANED AND REPURCHASE AGREEMENTS**

	<b>AMOUNT OF LOAN PAYABLE OR CASH RECEIVED AS COLLATERAL C\$'000</b> [see note 3]	<b>MARKET VALUE OF SECURITIES RECEIVED AS COLLATERAL C\$'000</b> [see note 4]	<b>MARKET VALUE OF SECURITIES DELIVERED AS COLLATERAL OR LOANED C\$'000</b> [see note 4]	<b>REQUIRED TO MARGIN C\$'000</b>
1. Bank overdrafts	-----	N/A	N/A	Nil
<b>LOANS PAYABLE:</b>				
2. <i>Acceptable institutions</i>	-----	N/A	-----	Nil
3. <i>Acceptable counterparties</i>	-----	N/A	-----	-----
4. <i>Regulated entities</i>	-----	N/A	-----	-----
5. Others	-----	N/A	-----	-----
<b>SECURITIES LOANED:</b>				
6. <i>Acceptable institutions</i>	-----	-----	-----	Nil
7. <i>Acceptable counterparties</i>	-----	-----	-----	-----
8. <i>Regulated entities</i>	-----	-----	-----	-----
9. Others	-----	-----	-----	-----
<b>REPURCHASE AGREEMENTS:</b>				
10. <i>Acceptable institutions</i>	-----	N/A	-----	Nil
11. <i>Acceptable counterparties</i>	-----	N/A	-----	-----
12. <i>Regulated entities</i>	-----	N/A	-----	-----
13. Others	-----	N/A	-----	-----
14. <b>TOTAL</b> [Lines 1 through 13]	=====		=====	=====
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**FORM 1, PART II – SCHEDULE 7  
NOTES AND INSTRUCTIONS**

1. This schedule is to be completed for loan payable transactions, whereby the stated purpose of the transaction is to borrow cash. All security lending transactions and financing transactions done via 2 trade tickets, including securities repurchases and those with related parties, should also be disclosed on this schedule.
2. For the purpose of this schedule,
  - (a) "cash loans payable" are loan transactions where the purpose of the loan is for the Dealer Member to borrow cash and deliver securities as collateral to the counterparty;
  - (b) "excess collateral deficiency" is defined as:
    - (i) For cash loans payable, any excess of the market value of the actual collateral delivered to the transaction counterparty over 102% the amount of the loan;
    - or
    - (ii) For securities loan arrangements, any excess of the market value of the securities loaned over the market value of securities or the amount of cash received from the transaction counterparty as collateral.and
  - (c) "securities loan arrangements" are loan transactions where the purpose of the loan is for the Dealer Member to lend securities and receive cash or securities as collateral from the counterparty.
3. Include accrued interest in amount of loan payable.
4. Market value of securities received or delivered as collateral should include accrued interest.
5. **Cash loans payable**

**(a) Written agreement requirements**

Any written agreement for a cash loan payable between the Dealer Member and a counterparty must include terms which provide:

- (i) For the rights of either party to retain or realize on securities held by it from the other party on default;
- (ii) For events of default;
- (iii) For the treatment of the value of securities held by a non-defaulting party in excess of amounts which may be owed by a defaulting party;
- (iv) Either for set-off or, in the case of secured loans of securities, continuous segregation of collateral and the requirement for the lender to perfect a security interest in collateral giving the highest priority; and
- (v) If set-off rights or security interests are created in securities provided as collateral by one party to another, that the securities are endorsed for transfer, where applicable, and free of any trading restrictions.

**(b) Margin requirements**

The margin requirements for a cash loan payable are as follows:

- (i) Where a written agreement has not been entered into or the written agreement entered into does not include all of the required minimum terms in Note 5(a), the margin required shall be:
  - (A) Nil, where the counterparty to the transaction is an *acceptable institution* and the transaction has been confirmed with the *acceptable institution*, or
  - (B) 100% of the market value of the actual collateral provided to the transaction counterparty.
- (ii) Where a written agreement has been entered into that includes all of the required minimum terms in Note 5(a),

**FORM 1, PART II – SCHEDULE 7**  
**NOTES AND INSTRUCTIONS** [Continued]

the margin required to be provided shall be determined according to the following table:

<b>Transaction counterparty type</b>	<b>Margin required</b>
<i>Acceptable institution</i>	No margin <sup>1</sup>
<i>Acceptable counterparty</i>	Excess collateral deficiency <sup>1</sup>
<i>Regulated entity</i>	Excess collateral deficiency <sup>1</sup>
Other	Margin
<sup>1</sup> Any transaction which has not been confirmed by an <i>acceptable institution</i> , <i>acceptable counterparty</i> or <i>regulated entity</i> within 15 business days of the trade shall be margined.	

**6. Securities loan arrangements**

**(a) Written agreement requirements**

Any written agreement for a securities loan arrangement between the Dealer Member and a counterparty must include terms which provide:

- (i) For the rights of either party to retain or realize on securities held by it from the other party on default;
- (ii) For events of default;
- (iii) For the treatment of the value of securities held by a non-defaulting party in excess of amounts which may be owed by a defaulting party;
- (iv) Either for set-off or, in the case of secured loans of securities, continuous segregation of collateral and the requirement for the lender to perfect a security interest in collateral giving the highest priority; and
- (v) If set-off rights or security interests are created in securities loaned or provided as collateral by one party to another, that the securities are endorsed for transfer, where applicable, and free of any trading restrictions.

**(b) Additional written agreement requirements for certain agency agreements**

**Agency agreements where agent may be treated as equivalent to principal**

Any written collateral management or custodial agreement involving a securities loan arrangement between the Dealer Member and a third party custodian, which is acting as an agent, may be reported and treated in the same manner for margin purposes as the equivalent principal securities loan arrangement between the Dealer Member and the third party custodian, if all of the following additional terms [i.e. over and above those set out in Note 6(a)] are stipulated in the written agreement:

- (i) the loan collateral must be held by the third party custodian agent and if the loan collateral is made up of securities there must be no right to re-hypothecate those securities; and
- (ii) in the event of the underlying principal borrower default, the loan collateral that has been posted with the third party custodian agent will be liquidated by the third party custodian agent and proceeds used to purchase the loaned security which will be returned to the Dealer Member. If the loaned security cannot be purchased in the market, its equivalent value is returned to the Dealer Member. Any excess value on the realization on the loan collateral will be returned by the third party custodian agent to the underlying principal borrower; and
- (iii) the third party custodian agent must meet the definition of “financial intermediary” in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act).

**Agency agreements where agent must not be treated as equivalent to principal**

**FORM 1, PART II – SCHEDULE 7**  
**NOTES AND INSTRUCTIONS** [Continued]

Where these additional terms [(i),(ii) and (iii) immediately above] are not all present or the arrangement does not involve an agent that is acting as a third party custodian, the Dealer Member must look through the agent in the agency arrangement to the underlying principal borrower and the agency arrangement must be reported and treated in the same manner for margin purposes as the equivalent principal securities lending arrangement between the Dealer Member and the underlying principal borrower.

**(c) Margin requirements**

The margin requirements for a securities loan arrangement are as follows:

- (i) Where a written agreement has not been entered into or the written agreement entered into does not include all of the required minimum terms in Note 6(a), the margin required shall be:
  - (A) Nil, where the counterparty to the transaction is an *acceptable institution* and the transaction has been confirmed with the *acceptable institution*, or
  - (B) 100% of the market value of the securities loaned to the transaction counterparty.
- (ii) Where a written agreement has been entered into that includes all of the required minimum terms in Note 6(a), for margin purposes:
  - (A) For principal arrangements, the counterparty is the principal in the arrangement,
  - (B) For agency arrangements, where a third party custodian agent is involved and all of the additional required minimum terms in Note 6(b) are present, the counterparty is the third party custodian,
  - (C) For agency arrangements, where all of the additional required minimum terms in Note 6(b) are not present or the arrangement does not involve an agent that is acting as a third party custodian, the counterparty is the underlying principal borrower,

the margin required to be provided shall be determined according to the following table:

<b>Transaction counterparty type</b>	<b>Margin required</b>
<i>Acceptable institution</i>	No margin <sup>1</sup>
<i>Acceptable counterparty</i>	Excess collateral deficiency <sup>1</sup>
<i>Regulated entity</i>	Excess collateral deficiency <sup>1</sup>
Other	Margin
<sup>1</sup> Any transaction which has not been confirmed by an <i>acceptable institution</i> , <i>acceptable counterparty</i> or <i>regulated entity</i> within 15 business days of the trade shall be margined.	

**7. Securities repurchase agreements**

**(a) Written agreement requirements**

Any written agreement for a securities repurchase agreement between the Dealer Member and a counterparty must include terms which provide:

- (i) For the rights of either party to retain or realize on securities held by it from the other party on default,
- (ii) For events of default,
- (iii) For the treatment of the value of securities held by a non-defaulting party in excess of amounts which may be owed by a defaulting party,

**FORM 1, PART II – SCHEDULE 7**  
**NOTES AND INSTRUCTIONS** [Continued]

- (iv) Either for set-off or, in the case of secured loans of securities, continuous segregation of collateral and the requirement for the lender to perfect a security interest in collateral giving the highest priority,
- (v) If set-off rights or security interests are created in securities sold or loaned by one party to another, that the securities are endorsed for transfer, where applicable, and free of any trading restrictions; and
- (vi) For an acknowledgement by the parties that either has the right, upon notice, to call for any shortfall in the difference between the collateral and the securities at any time.

**(b) Margin requirements**

The margin requirements for a securities repurchase agreement are as follows:

- (i) Where a written agreement has not been entered into or the written agreement entered into does not include all of the required minimum terms, the margin required to be provided shall be determined according to the following table:

Transaction counterparty type	Margin required based on term of transaction	
	30 calendar days or less after regular settlement <sup>1</sup>	Greater than calendar 30 days after regular settlement <sup>1</sup>
<i>Acceptable institution</i>	No margin <sup>2</sup>	
<i>Acceptable counterparty</i>	Market value deficiency <sup>2</sup>	Margin
<i>Regulated entity</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> Regular settlement means the settlement date or delivery date generally accepted according to industry practice for the relevant security in the market in which the transaction occurs. Margin is calculated from the date of regular settlement. Calendar days refer to the original term of the repurchase transaction. <sup>2</sup> Any transaction which has not been confirmed by an <i>acceptable institution</i> , <i>acceptable counterparty</i> or <i>regulated entity</i> within 15 business days of the trade shall be margined.		

- (ii) Where a written agreement has been entered into that includes all of the required minimum terms, the margin required to be provided shall be determined according to the following table:

Transaction counterparty type	Margin required
<i>Acceptable institution</i>	No margin <sup>1</sup>
<i>Acceptable counterparty</i>	Market value deficiency <sup>1</sup>
<i>Regulated entity</i>	Market value deficiency <sup>1</sup>
Other	Margin
<sup>1</sup> Any transaction which has not been confirmed by an <i>acceptable institution</i> , <i>acceptable counterparty</i> or <i>regulated entity</i> within 15 business days of the trade shall be margined.	

- 8. For any given counterparty a deficiency in one type of loan may be offset by an excess in another type of loan provided that there are written agreements for each type of loan which provide for the right of offset between each type of loan. In such case, the balances may also be offset for margin calculation purposes.
- 9. In order for a pension fund to be treated as an *acceptable institution* for purposes of this Schedule, it must not only meet the *acceptable institution* criteria outlined in General Notes and Definitions, but the Dealer Member must also have received representation that the pension fund is legally able to enter into the obligations of the transaction. If such

**FORM 1, PART II – SCHEDULE 7**  
**NOTES AND INSTRUCTIONS** [Continued]

representation has not been received, the pension fund which otherwise meets the *acceptable institution* criteria must be treated as an *acceptable counterparty*.

10. **Lines 3, 4, 7 and 8** - In the case of a cash loan payable or a securities loan arrangement between a Dealer Member and either an *acceptable counterparty* or a *regulated entity*, where an *excess collateral deficiency* exists, action must be taken to correct the deficiency. If no action is taken, the amount of *excess collateral deficiency* must be immediately provided out of the Dealer Member's capital. In any case, where the deficiency exists for more than one business day it must be provided out of the Dealer Member's capital.
11. **Lines 11 and 12** - In the case of a repurchase transaction between a Dealer Member and either an *acceptable counterparty* or a *regulated entity*, where a deficiency exists between the *market value* of the securities repurchased and the *market value* of the cash received, action must be taken to correct the deficiency. If no action is taken the amount of *market value* deficiency must be immediately provided out of the Dealer Member's capital. In any case, where the deficiency exists for more than one business day, it must be provided out of the Dealer Member's capital.
12. **Lines 5, 9 and 13** - In the case of a cash loan payable or a securities loan or a repurchase arrangement / transaction between a Dealer Member and a party other than an *acceptable institution*, *acceptable counterparty* or *regulated entity*, where a deficiency exists between the loan value of the cash received or securities lent or repurchased and the loan value of the collateral or cash pledged, action must be taken to correct the deficiency. If no action is taken the amount of loan value deficiency must be immediately provided out of the Dealer Member's capital. The margin required may be reduced by any margin already provided on the collateral (e.g. in inventory). Where the collateral is either held by the Dealer Member on a fully segregated basis or held in escrow on its behalf by an Acceptable Depository or a bank or trust company qualifying as either an *acceptable institution* or *acceptable counterparty*, only the amount of *market value* deficiency need be provided out of the Dealer Member's capital. In any case, where the deficiency exists for more than one business day, it must be provided out of the Dealer Member's capital.
13. **Lines 2, 3 and 4** - In a cash loan payable transaction between a Dealer Member and an *acceptable institution*, *acceptable counterparty*, or *regulated entity*, where a letter of credit issued by a Schedule 1 Bank is used as collateral for the cash loan, there shall be no charge to the Dealer Member's capital for any excess of the value of the letter of credit pledged as collateral over the cash borrowed.
14. **Lines 5, 9, and 13** - Arrangements other than those regarding agency agreements where an agent may be treated as equivalent to principal in Note 6(b) whereby an *acceptable institution*, *acceptable counterparty*, or *regulated entity* is only acting as an agent (on behalf of an "other" party) should be reported and margined as "Others".

**FORM 1, PART II – SCHEDULE 7A**

DATE: \_\_\_\_\_

\_\_\_\_\_  
(Dealer Member Name)

**CASH AND SECURITIES BORROWING AND LENDING ARRANGEMENTS CONCENTRATION  
CHARGE**

		<b>CS'000</b>
1.	Sch. 1, Line 2 Market value deficiency amount relating to loans receivable from <i>acceptable counterparties</i> , net of legal offsets and margin already provided	-----
2.	Sch. 1, Line 3 Market value deficiency amount relating to loans receivable from <i>regulated entities</i> , net of legal offsets and margin already provided	-----
3.	Sch. 1, Line 6 Market value deficiency amount relating to securities borrowed from <i>acceptable counterparties</i> , net of legal offsets and margin already provided	-----
4.	Sch. 1, Line 7 Market value deficiency amount relating to securities borrowed from <i>regulated entities</i> , net of legal offsets and margin already provided	-----
5.	Sch. 7, Line 3 Market value deficiency amount relating to loans payable to <i>acceptable counterparties</i> , net of legal offsets and margin already provided	-----
6.	Sch. 7, Line 4 Market value deficiency amount relating to loans payable to <i>regulated entities</i> , net of legal offsets and margin already provided	-----
7.	Sch. 7, Line 7 Market value deficiency amount relating to securities lent to <i>acceptable counterparties</i> , net of legal offsets and margin already provided	-----
8.	Sch. 7, Line 8 Market value deficiency amount relating to securities lent to <i>regulated entities</i> , net of legal offsets and margin already provided	-----
9.	<b>TOTAL MARKET VALUE DEFICIENCY EXPOSURE WITH ACCEPTABLE COUNTERPARTIES AND REGULATED ENTITIES, NET OF LEGAL OFFSETS AND MARGIN ALREADY PROVIDED [Sum of Lines 1 to 6]</b>	=====
10.	<b>CONCENTRATION THRESHOLD – 100% OF NET ALLOWABLE ASSETS</b>	-----
11.	<b>CONCENTRATION CHARGE [Excess of Line 9 over Line 10, otherwise NIL]</b>	=====

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**INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA**

**MARGIN REQUIREMENTS FOR CERTAIN CASH AND SECURITY BORROWING AND LENDING  
ARRANGEMENTS – AMENDMENTS TO SCHEDULES 1, 7 AND 7A OF DEALER MEMBER FORM 1**

**BLACK-LINE COMPARISON OF AMENDMENTS TO CURRENT DEALER MEMBER FORM 1**



FORM 1, PART II – SCHEDULE 1

DATE: \_\_\_\_\_

\_\_\_\_\_  
(Dealer Member Name)

**ANALYSIS OF LOANS RECEIVABLE, SECURITIES BORROWED AND RESALE AGREEMENTS**

	<b>AMOUNT OF LOAN RECEIVABLE OR CASH DELIVERED AS COLLATERAL C\$'000 [see note 3]</b>	<b>MARKET VALUE OF SECURITIES DELIVERED AS COLLATERAL C\$'000 [see note 4]</b>	<b>MARKET VALUE OF SECURITIES RECEIVED AS COLLATERAL OR BORROWED C\$'000 [see note 4]</b>	<b>REQUIRED TO MARGIN C\$'000</b>
<b>LOANS RECEIVABLE:</b>				
1. <i>Acceptable institutions</i>	-----	N/A	-----	Nil
2. <i>Acceptable counterparties</i>	-----	N/A	-----	-----
3. <i>Regulated entities</i>	-----	N/A	-----	-----
4. Others [see note <a href="#">+214</a> ]	-----	N/A	-----	-----
<b>SECURITIES BORROWED:</b>				
5. <i>Acceptable institutions</i>	-----	-----	-----	Nil
6. <i>Acceptable counterparties</i>	-----	-----	-----	-----
7. <i>Regulated entities</i>	-----	-----	-----	-----
8. Others [see note <a href="#">+214</a> ]	-----	-----	-----	-----
<b>RESALE AGREEMENTS:</b>				
9. <i>Acceptable institutions</i>	-----	N/A	-----	Nil
10. <i>Acceptable counterparties</i>	-----	N/A	-----	-----
11. <i>Regulated entities</i>	-----	N/A	-----	-----
12. Others [see note <a href="#">+214</a> ]	-----	N/A	-----	-----
13. <b>TOTAL</b> [Lines 1 through 12]	-----		-----	-----
	A-6			B-9

**FORM 1, PART II – SCHEDULE 1**  
**NOTES AND INSTRUCTIONS**

1. This schedule is to be completed for secured loan receivable transactions whereby the stated purpose of the transaction is to lend excess cash. All security borrowing ~~transactions and resale (i.e. reverse repo) agreements, including and~~ financing transactions done via 2 trade tickets, including resale transactions and those with related parties, should also be disclosed on this schedule.

2. For the purpose of this schedule,

(a) "cash loans receivable" are loan transactions where the purpose of the loan is for the Dealer Member to lend cash and receive securities as collateral from the counterparty;

(b) "excess collateral deficiency" is defined as:

(i) For cash loans receivable, any excess of the amount of the loan over the market value of the actual collateral provided to the counterparty less the collateral required to be received by the counterparty pursuant to regulatory or legislative requirements. A list of current collateralization rates for each category of acceptable counterparties is published on a regular basis from the transaction counterparty;

or

(ii) For securities borrow arrangements, any excess of the market value of the actual collateral provided to the transaction counterparty over:

(A) 102% of the market value of the securities borrowed, where cash is provided as collateral; or

(B) 105% of the market value of the securities borrowed, where securities are provided as collateral.

and

(c) "securities borrow arrangements" are loan transactions where the purpose of the loan is for the Dealer Member to borrow securities and deliver cash or securities as collateral to the counterparty.

3. Include accrued interest in amount of loan receivable.

4. Market value of securities delivered or received as collateral should include accrued interest.

5. ~~In the case of either a cash loan and securities borrowing or a resale transaction, if a~~ **Cash loans receivable**

**(a) Written agreement requirements**

Any written agreement for a cash loan receivable between the Dealer Member and the counterparty has been entered into containing the terms described below, the instructions in Notes 7, 8, 9, and 10 are applicable, as the case may be. Each such written agreement shall a counterparty must include terms which provide :

~~(i) for~~ For the rights of either party to retain or realize on securities held by it from the other party on default; ~~;~~

~~(ii) for~~ For events of default; ~~;~~

~~(iii) for~~ For the treatment of the value of securities held by a non-defaulting party in excess of amounts which may be owed by a defaulting party; ~~;~~

~~(iv) either~~ Either for set-off or, in the case of secured loans of securities, continuous segregation of collateral and the requirement for the lender to perfect a security interest in collateral giving the highest priority; ~~;~~ and

~~(v) if~~ If set-off rights or security interests are created in securities  ~~sold or loaned~~ provided as collateral by one party to another, that the securities are endorsed for transfer, where applicable, and free of any trading restrictions. ~~In addition, in the case of a resale transaction such written agreement shall contain an acknowledgement by the parties that either has the right, upon notice, to call for any shortfall in the difference between the collateral and the securities at any time. Such agreements are not mandatory and if not used are to be margined as provided below.~~

~~Feb-2011~~ Oct-2015

**FORM 1, PART II – SCHEDULE 1**  
**NOTES AND INSTRUCTIONS [Continued]**

**(b) Margin requirements**

~~In the case of~~The margin requirements for a cash loan ~~and securities borrowing transaction, if no such~~receivable are as follows:

(i) ~~Where a~~ written agreement has not been entered into ~~in respect of the transaction, then 100% of the market value must be provided as margin by the Dealer Member on the collateral given to the lender except in the case where the lender or the written agreement entered into does not include all of the required minimum terms in Note 5(a), the margin required shall be:~~

~~(A) Nil, where the counterparty to the transaction is an acceptable institution in which case no margin need be and the transaction has been confirmed with the acceptable institution, or~~

~~(B) 100% of the market value of the actual collateral provided to the transaction counterparty.~~

~~In the case of a resale transaction, if no such~~(ii) Where a written agreement has been entered into ~~in respect that includes all of the transaction, the position shall be margined as follows~~required minimum terms in Note 5(a), the margin required to be provided shall be determined according to the following table:

<u>Counterparty Transaction counterparty type</u>	<u>Written Repurchase/Reverse Repurchase Agreement Margin required</u>	<b>NO-Written-Repurchase/Reverse Repurchase Agreement</b> <b>Calendar days after regular settlement (Note 1)</b>	
		<b>30 days or less</b>	<b>Greater than 30 days</b>
<i>Acceptable institution</i>	No margin <sup>1</sup>		
<i>Acceptable counterparty</i>	Excess collateral deficiency <sup>1</sup>		
<i>Regulated entity</i>	<del>Market</del> <u>Excess collateral</u> deficiency <sup>1</sup>	Market deficiency (Note 2)	Margin
<i>Other</i>	Margin	Margin	200% of margin (to a maximum of the market value of the underlying securities)
<p><del>Note 1: Regular settlement means the settlement dates or delivery date generally accepted according to industry practice for the relevant security in the market in which the transaction occurs. Margin is calculated from the date of regular settlement. Calendar days refers to the original term of the repurchase/reverse repurchase.</del></p> <p><del>Note 2:<sup>1</sup>Any transaction which has not been confirmed by an acceptable institution, acceptable counterparty or regulated entity within 15 business days of the trade shall be margined.</del></p>			

6. For any given counterparty a deficiency in one type of loan may be offset by an excess in another type of loan provided that there are written agreements for each type of loan which provide for the right of offset between each type of loan. In such case, the balances may also be offset for margin calculation purposes. **Securities borrow arrangements**

**(a) Written agreement requirements**

**FORM 1, PART II – SCHEDULE 1**  
**NOTES AND INSTRUCTIONS** [Continued]

Any written agreement for a securities borrowing arrangement between the Dealer Member and a counterparty must include terms which provide:

- (i) For the rights of either party to retain or realize on securities held by it from the other party on default;
- (ii) For events of default;
- (iii) For the treatment of the value of securities held by a non-defaulting party in excess of amounts which may be owed by a defaulting party;
- (iv) Either for set-off or, in the case of secured loans of securities, continuous segregation of collateral and the requirement for the lender to perfect a security interest in collateral giving the highest priority; and
- (v) If set-off rights or security interests are created in securities borrowed or securities provided as collateral by one party to another, that the securities are endorsed for transfer, where applicable, and free of any trading restrictions.

**(b) Additional written agreement requirements for certain agency agreements**

**Agency agreements where agent may be treated as equivalent to principal**

Any written collateral management or custodial agreement involving a securities borrowing arrangement between the Dealer Member and a third party custodian, which is acting as an agent, may be reported and treated in the same manner for margin purposes as the equivalent principal securities borrowing arrangement between the Dealer Member and the third party custodian, if all of the following additional terms [i.e. over and above those set out in Note 6(a)] are stipulated in the written agreement:

- (i) the loan collateral must be held by the third party custodian agent and if the loan collateral is made up of securities there must be no right to re-hypothecate those securities;
- (ii) in the event of the Dealer Member default, the loan collateral that has been posted with the third party custodian agent will be liquidated by the third party custodian agent and proceeds used to purchase the borrowed security which will be returned to the underlying principal lender. If the borrowed security cannot be purchased in the market, its equivalent value is returned to the underlying principal lender. Any excess value on the realization on the loan collateral will be returned by the third party custodian agent to the Dealer Member; and
- (iii) the third party custodian agent must meet the definition of “financial intermediary” in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act).

**Agency agreements where agent must not be treated as equivalent to principal**

Where these additional terms [(i),(ii) and (iii) immediately above] are not all present or the arrangement does not involve an agent that is acting as a third party custodian, the Dealer Member must look through the agent in the agency arrangement to the underlying principal lender and the agency arrangement must be reported and treated in the same manner for margin purposes as the equivalent principal securities borrowing arrangement between the Dealer Member and the underlying principal lender.

**(c) Margin requirements**

The margin requirements for a securities borrowing arrangement are as follows:

- (i) Where a written agreement has not been entered into or the written agreement entered into does not include all of the required minimum terms in Note 6(a), the margin required shall be:
  - (A) Nil, where the counterparty to the transaction is an *acceptable institution* and the transaction has been confirmed with the *acceptable institution*, or

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**FORM 1, PART II – SCHEDULE 1**  
**NOTES AND INSTRUCTIONS** [Continued]

(B) 100% of the market value of the actual collateral provided to the transaction counterparty.

(ii) Where a written agreement has been entered into that includes all of the required minimum terms in Note 6(a), for margin purposes:

(A) For principal arrangements, the counterparty is the principal in the arrangement.

(B) For agency arrangements, where a third party custodian agent is involved and all of the additional required minimum terms in Note 6(b) are present, the counterparty is the third party custodian.

(C) For agency arrangements, where all of the additional required minimum terms in Note 6(b) are not present or the arrangement does not involve an agent that is acting as a third party custodian, the counterparty is the underlying principal lender.

the margin required to be provided shall be determined according to the following table:

~~7. **Lines 1, 5 and 9** – In a cash loan and securities borrow or resale transaction between a Dealer Member and an acceptable institution, no capital need be provided in the case where a deficiency exists between the market value of the cash loaned or securities borrowed or resold and the market value of the collateral or cash pledged.~~

<u>Transaction counterparty type</u>	<u>Margin required</u>
<u>Acceptable institution</u>	<u>No margin<sup>1</sup></u>
<u>Acceptable counterparty</u>	<u>Excess collateral deficiency<sup>1</sup></u>
<u>Regulated entity</u>	<u>Excess collateral deficiency<sup>1</sup></u>
<u>Other</u>	<u>Margin</u>
<sup>1</sup> — <u>Any transaction which has not been confirmed by an acceptable institution, acceptable counterparty or regulated entity within 15 business days of the trade shall be margined.</u>	

**7. Securities resale agreements**

**(a) Written agreement requirements**

Any written agreement for a securities resale agreement between the Dealer Member and a counterparty must include terms which provide:

(i) For the rights of either party to retain or realize on securities held by it from the other party on default,

(ii) For events of default,

(iii) For the treatment of the value of securities held by a non-defaulting party in excess of amounts which may be owed by a defaulting party,

(iv) Either for set-off or, in the case of secured loans of securities, continuous segregation of collateral and the requirement for the lender to perfect a security interest in collateral giving the highest priority,

(v) If set-off rights or security interests are created in securities sold or loaned by one party to another, that the securities are endorsed for transfer, where applicable, and free of any trading restrictions; and

(vi) For an acknowledgement by the parties that either has the right, upon notice, to call for any shortfall in the difference between the collateral and the securities at any time.

**(b) Margin requirements**

The margin requirements for a securities resale agreement are as follows:

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**NOTES AND INSTRUCTIONS** [Continued]

(i) Where a written agreement has not been entered into or the written agreement entered into does not include all of the required minimum terms, the margin required to be provided shall be determined according to the following table:

<u>Transaction counterparty type</u>	<u>Margin required based on term of transaction</u>	
	<u>30 calendar days or less after regular settlement<sup>1</sup></u>	<u>Greater than 30 calendar days after regular settlement<sup>1</sup></u>
<u>Acceptable institution</u>	<u>No margin<sup>2</sup></u>	
<u>Acceptable counterparty</u>	<u>Market value deficiency<sup>2</sup></u>	<u>Margin</u>
<u>Regulated entity</u>	<u>Market value deficiency<sup>2</sup></u>	<u>Margin</u>
<u>Other</u>	<u>Margin</u>	<u>200% of margin (to a maximum of the market value of the underlying securities)</u>
<sup>1</sup> <u>Regular settlement means the settlement date or delivery date generally accepted according to industry practice for the relevant security in the market in which the transaction occurs. Margin is calculated from the date of regular settlement. Calendar days refer to the original term of the resale transaction.</u> <sup>2</sup> <u>Any transaction which has not been confirmed by an <i>acceptable institution, acceptable counterparty or regulated entity</i> within 15 business days of the trade shall be margined.</u>		

(ii) Where a written agreement has been entered into that includes all of the required minimum terms, the margin required to be provided shall be determined according to the following table:

<u>Transaction counterparty type</u>	<u>Margin required</u>
<u>Acceptable institution</u>	<u>No margin<sup>1</sup></u>
<u>Acceptable counterparty</u>	<u>Market value deficiency<sup>1</sup></u>
<u>Regulated entity</u>	<u>Market value deficiency<sup>1</sup></u>
<u>Other</u>	<u>Margin</u>
<sup>1</sup> <u>Any transaction which has not been confirmed by an <i>acceptable institution, acceptable counterparty or regulated entity</i> within 15 business days of the trade shall be margined.</u>	

8. For any given counterparty a deficiency in one type of loan may be offset by an excess in another type of loan provided that there are written agreements for each type of loan which provide for the right of offset between each type of loan. In such case, the balances may also be offset for margin calculation purposes.

9. In order for a pension fund to be treated as an *acceptable institution* for purposes of this Schedule, it must not only meet the *acceptable institution* criteria outlined in General Notes and Definitions, but the Dealer Member must also have received representation that the pension fund is legally able to enter into the obligations of the transaction. If such representation has not been received, the pension fund which otherwise meets the *acceptable institution* criteria must be treated as an *acceptable counterparty*.

**WHERE AN AGREEMENT HAS BEEN EXECUTED, THEN:**

8-10. **Lines 2, 3, 6 and 107** - In the case of a cash loan ~~and receivable or a securities borrow or resale transaction~~ borrowing arrangement between a Dealer Member and either an *acceptable counterparty* or a regulated entity, where an *excess collateral deficiency* exists, action must be taken to correct the deficiency. If no action is taken the amount of *excess collateral deficiency* must be immediately provided out of the Dealer Member's capital. In any case, where the deficiency exists for more than one business day, it must be provided out of the Dealer Member's capital.

9-11. **Lines 3, 7-10 and 11** - In the case of a ~~cash loan and securities borrow or~~ resale transaction between a Dealer

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**FORM 1, PART II – SCHEDULE 1**  
**NOTES AND INSTRUCTIONS** [Continued]

Member and either an acceptable counterparty or a regulated entity, where a deficiency exists between the *market value* of the ~~cash loaned or~~ securities ~~borrowed or~~ resold and the *market value* of the ~~collateral or~~ cash pledged, action must be taken to correct the deficiency. If no action is taken the amount of *market value* deficiency must be immediately provided out of the Dealer Member's capital. In any case, where the deficiency exists for more than one business day, it must be provided out of the Dealer Member's capital.

~~10-12.~~ **Lines 4, 8 and 12** - In the case of a cash loan ~~and~~ receivable or a securities ~~borrow~~ borrowing or a resale arrangement / transaction between a Dealer Member and a party other than an *acceptable institution, acceptable counterparty or regulated entity*, where a deficiency exists between the loan value of the cash loaned or securities borrowed or resold and the loan value of the collateral or cash pledged, action must be taken to correct the deficiency. If no action is taken the amount of loan value deficiency must be immediately provided out of the Dealer Member's capital. The margin required may be reduced by any margin already provided on the collateral (e.g. in inventory). Where the collateral is either held by the Dealer Member on a fully segregated basis or held in escrow on its behalf by an Acceptable Depository or a bank or trust company qualifying as either an *acceptable institution or acceptable counterparty*, only the amount of *market value* deficiency need be provided out of the Dealer Member's capital. In any case, where the deficiency exists for more than one business day, it must be provided out of the Dealer Member's capital.

~~11-13.~~ **Lines 5, 6 and 7** - In a securities borrowed transaction between a Dealer Member and an *acceptable institution, acceptable counterparty, or regulated entity*, where a letter of credit issued by a Schedule 1 Bank is used as collateral for the securities borrowed, there shall be no charge to the Dealer Member's capital for any excess of the value of the letter of credit pledged as collateral over the *market value* of the securities borrowed.

~~12-14.~~ **Lines 4, 8 and 12** - ~~Transactions~~ Arrangements other than those regarding agency agreements where an agent may be treated as equivalent to principal in Note 6(b) whereby an *acceptable institution, acceptable counterparty, or regulated entity* ~~are~~ is only acting as ~~agents~~ an agent (on behalf of an "other" party) should be reported and margined as "Others".

## FORM 1, PART II – SCHEDULE 7

DATE: \_\_\_\_\_

\_\_\_\_\_  
(Dealer Member Name)**ANALYSIS OF OVERDRAFTS, LOANS, SECURITIES LOANED AND REPURCHASE AGREEMENTS**

	<b>AMOUNT OF LOAN PAYABLE OR CASH RECEIVED AS COLLATERAL C\$'000 [see note 3]</b>	<b>MARKET VALUE OF SECURITIES RECEIVED AS COLLATERAL C\$'000 [see note 4]</b>	<b>MARKET VALUE OF SECURITIES DELIVERED AS COLLATERAL OR LOANED C\$'000 [see note 4]</b>	<b>REQUIRED TO MARGIN C\$'000</b>
1. Bank overdrafts	-----	N/A	N/A	Nil
<b>LOANS PAYABLE:</b>				
2. <i>Acceptable institutions</i>	-----	N/A	-----	Nil
3. <i>Acceptable counterparties</i>	-----	N/A	-----	-----
4. <i>Regulated entities</i>	-----	N/A	-----	-----
5. Others	-----	N/A	-----	-----
<b>SECURITIES LOANED:</b>				
6. <i>Acceptable institutions</i>	-----	-----	-----	Nil
7. <i>Acceptable counterparties</i>	-----	-----	-----	-----
8. <i>Regulated entities</i>	-----	-----	-----	-----
9. Others	-----	-----	-----	-----
<b>REPURCHASE AGREEMENTS:</b>				
10. <i>Acceptable institutions</i>	-----	N/A	-----	Nil
11. <i>Acceptable counterparties</i>	-----	N/A	-----	-----
12. <i>Regulated entities</i>	-----	N/A	-----	-----
13. Others	-----	N/A	-----	-----
14. <b>TOTAL</b> [Lines 1 through 13]	=====		=====	=====
	A-51			B-14

[See notes and instructions]

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**FORM 1, PART II – SCHEDULE 7  
NOTES AND INSTRUCTIONS**

1. This schedule is to be completed for loan payable transactions, whereby the stated purpose of the transaction is to borrow cash. All security lending transactions and ~~securities repurchases, including~~ financing transactions done via 2 trade tickets, including securities repurchases and those with related parties, should also be disclosed on this schedule.
- ~~2-~~2. For the purpose of this schedule,
- (a) “cash loans payable” are loan transactions where the purpose of the loan is for the Dealer Member to borrow cash and deliver securities as collateral to the counterparty;
- (b) “excess collateral deficiency” is defined as:
- (i) For cash loans payable, any excess of the market value of the actual collateral provided to the counterparty less the collateral required to be received by the counterparty pursuant to regulatory or legislative requirements. A list of current collateralization rates for each category of acceptable counterparties is published on a regular basis, delivered to the transaction counterparty over 102% the amount of the loan;
- or
- (ii) For securities loan arrangements, any excess of the market value of the securities loaned over the market value of securities or the amount of cash received from the transaction counterparty as collateral.
- and
- (c) “securities loan arrangements” are loan transactions where the purpose of the loan is for the Dealer Member to lend securities and receive cash or securities as collateral from the counterparty.
- ~~3-~~3. Include accrued interest in amount of loan payable.
4. Market value of securities received or delivered as collateral should include accrued interest.
5. ~~In the case of either a cash borrow and securities loan or a repurchase transaction, if a~~Cash loans payable
- (a) Written agreement requirements**
- ~~Any~~ written agreement for a cash loan payable between the Dealer Member and ~~the counterparty has been entered into containing the terms described below, the instructions in Notes 7, 8, 9 and 10 are applicable, as the case may be. Each such written agreement shall~~a counterparty must include terms which provide :
- (i) ~~for~~ For the rights of either party to retain or realize on securities held by it from the other party on default;~~;~~
- (ii) ~~for~~ For events of default;~~;~~
- (iii) ~~for~~ For the treatment of the value of securities held by a non-defaulting party in excess of amounts which may be owed by a defaulting party;~~;~~
- (iv) ~~either~~ Either for set-off or, in the case of secured loans of securities, continuous segregation of collateral and the requirement for the lender to perfect a security interest in collateral giving the highest priority;~~;~~ and
- (v) ~~if~~ If set-off rights or security interests are created in securities ~~sold or loaned~~provided as collateral by one party to another, that the securities are endorsed for transfer, where applicable, and free of any trading restrictions. ~~In addition, in the case of a repurchase transaction such written agreement shall contain an acknowledgement by the parties that either has the right, upon notice, to call for any difference between the collateral and the securities at any time. Such agreements are not mandatory and if not used are to be margined as provided below.~~
- (b) Margin requirements**
- ~~In the case of~~The margin requirements for a cash ~~borrow and securities loan transaction, if no such~~loan payable are

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**FORM 1, PART II – SCHEDULE 7  
NOTES AND INSTRUCTIONS [Continued]**

as follows:

(i) Where a written agreement has not been entered into ~~in respect of the transaction, then 100% of the market value must be provided as margin by the Dealer Member on the collateral given to the lender except in the case where the lender~~ or the written agreement entered into does not include all of the required minimum terms in Note 5(a), the margin required shall be:

(A) Nil, where the counterparty to the transaction is an acceptable institution ~~in which case no margin need be~~ and the transaction has been confirmed with the acceptable institution, or

(B) 100% of the market value of the actual collateral provided to the transaction counterparty.

~~— In the case of a repurchase transaction, if no such (ii) \_\_\_\_\_~~ Where a written agreement has been entered into ~~in respect of the transaction, the position shall be margined as follows that includes all of the required minimum terms in Note 5(a), the margin required to be provided shall be determined according to the following table:~~

<u>Counterparty Transaction counterparty type</u>	<u>Written Repurchase/Reverse Repurchase Agreement Margin required</u>	<b>NO-Written-Repurchase/Reverse Repurchase Agreement</b> <b>Calendar days after regular settlement (Note 1)</b>	
		<b>30 days or less</b>	<b>Greater than 30 days</b>
<i>Acceptable institution</i>	No margin <sup>1</sup>		
<i>Acceptable counterparty</i>	Excess collateral deficiency <sup>1</sup>		
<i>Regulated entity</i>	<del>Market</del> <u>Excess collateral</u> deficiency <sup>1</sup>	Market deficiency (Note 2)	Margin
<i>Other</i>	Margin	Margin	200% of margin (to a maximum of the market value of the underlying securities)
<p><del>Note 1: Regular settlement means the settlement dates or delivery date generally accepted according to industry practice for the relevant security in the market in which the transaction occurs. Margin is calculated from the date of regular settlement. Calendar days refers to the original term of the repurchase/reverse repurchase.</del></p> <p><del>Note 2:<sup>1</sup>Any transaction which has not been confirmed by an acceptable institution, acceptable counterparty or regulated entity within 15 business days of the trade shall be margined.</del></p>			

6. ~~For any given counterparty a deficiency in one type of loan may be offset by an excess in another type of loan provided that there are written agreements for each type of loan which provide for the right of offset between each type of loan. In such case, the balances may also be offset for margin calculation purposes.~~ **Securities loan arrangements**

**(a) Written agreement requirements**

Any written agreement for a securities loan arrangement between the Dealer Member and a counterparty must include terms which provide:

**FORM 1, PART II – SCHEDULE 7**  
**NOTES AND INSTRUCTIONS** [Continued]

- (i) For the rights of either party to retain or realize on securities held by it from the other party on default;
- (ii) For events of default;
- (iii) For the treatment of the value of securities held by a non-defaulting party in excess of amounts which may be owed by a defaulting party;
- (iv) Either for set-off or, in the case of secured loans of securities, continuous segregation of collateral and the requirement for the lender to perfect a security interest in collateral giving the highest priority; and
- (v) If set-off rights or security interests are created in securities loaned or provided as collateral by one party to another, that the securities are endorsed for transfer, where applicable, and free of any trading restrictions.

**(b) Additional written agreement requirements for certain agency agreements**

**Agency agreements where agent may be treated as equivalent to principal**

Any written collateral management or custodial agreement involving a securities loan arrangement between the Dealer Member and a third party custodian, which is acting as an agent, may be reported and treated in the same manner for margin purposes as the equivalent principal securities loan arrangement between the Dealer Member and the third party custodian, if all of the following additional terms [i.e. over and above those set out in Note 6(a)] are stipulated in the written agreement:

- (i) the loan collateral must be held by the third party custodian agent and if the loan collateral is made up of securities there must be no right to re-hypothecate those securities; and
- (ii) in the event of the underlying principal borrower default, the loan collateral that has been posted with the third party custodian agent will be liquidated by the third party custodian agent and proceeds used to purchase the loaned security which will be returned to the Dealer Member. If the loaned security cannot be purchased in the market, its equivalent value is returned to the Dealer Member. Any excess value on the realization on the loan collateral will be returned by the third party custodian agent to the underlying principal borrower; and
- (iii) the third party custodian agent must meet the definition of “financial intermediary” in relation to the Eligible Financial Contract General Rules (Bankruptcy and Insolvency Act).

**Agency agreements where agent must not be treated as equivalent to principal**

Where these additional terms [(i),(ii) and (iii) immediately above] are not all present or the arrangement does not involve an agent that is acting as a third party custodian, the Dealer Member must look through the agent in the agency arrangement to the underlying principal borrower and the agency arrangement must be reported and treated in the same manner for margin purposes as the equivalent principal securities lending arrangement between the Dealer Member and the underlying principal borrower.

**(c) Margin requirements**

The margin requirements for a securities loan arrangement are as follows:

- (i) Where a written agreement has not been entered into or the written agreement entered into does not include all of the required minimum terms in Note 6(a), the margin required shall be:
  - (A) Nil, where the counterparty to the transaction is an *acceptable institution* and the transaction has been confirmed with the *acceptable institution*, or
  - (B) 100% of the market value of the securities loaned to the transaction counterparty.
- (ii) Where a written agreement has been entered into that includes all of the required minimum terms in Note 6(a), for margin purposes:

**FORM 1, PART II – SCHEDULE 7**  
**NOTES AND INSTRUCTIONS** [Continued]

- (A) For principal arrangements, the counterparty is the principal in the arrangement,
- (B) For agency arrangements, where a third party custodian agent is involved and all of the additional required minimum terms in Note 6(b) are present, the counterparty is the third party custodian,
- (C) For agency arrangements, where all of the additional required minimum terms in Note 6(b) are not present or the arrangement does not involve an agent that is acting as a third party custodian, the counterparty is the underlying principal borrower,

the margin required to be provided shall be determined according to the following table:

~~7. **Lines 2, 6, and 10**—In a cash borrowed and securities loan or repurchase transaction between a Dealer Member and an *acceptable institution*, no capital need be provided in the case where a deficiency exists between the *market value* of the cash borrowed or securities loaned or repurchased and the *market value* of the collateral or cash pledged.~~

<u>Transaction counterparty type</u>	<u>Margin required</u>
<u>Acceptable institution</u>	<u>No margin<sup>1</sup></u>
<u>Acceptable counterparty</u>	<u>Excess collateral deficiency<sup>1</sup></u>
<u>Regulated entity</u>	<u>Excess collateral deficiency<sup>1</sup></u>
<u>Other</u>	<u>Margin</u>
<sup>1</sup> <u>—Any transaction which has not been confirmed by an <i>acceptable institution</i>, <i>acceptable counterparty</i> or <i>regulated entity</i> within 15 business days of the trade shall be margined.</u>	

**7. Securities repurchase agreements**

**(a) Written agreement requirements**

Any written agreement for a securities repurchase agreement between the Dealer Member and a counterparty must include terms which provide:

- (i) For the rights of either party to retain or realize on securities held by it from the other party on default,
- (ii) For events of default,
- (iii) For the treatment of the value of securities held by a non-defaulting party in excess of amounts which may be owed by a defaulting party,
- (iv) Either for set-off or, in the case of secured loans of securities, continuous segregation of collateral and the requirement for the lender to perfect a security interest in collateral giving the highest priority,
- (v) If set-off rights or security interests are created in securities sold or loaned by one party to another, that the securities are endorsed for transfer, where applicable, and free of any trading restrictions; and
- (vi) For an acknowledgement by the parties that either has the right, upon notice, to call for any shortfall in the difference between the collateral and the securities at any time.

**(b) Margin requirements**

The margin requirements for a securities repurchase agreement are as follows:

- (i) Where a written agreement has not been entered into or the written agreement entered into does not include all of the required minimum terms, the margin required to be provided shall be determined according to the following table:

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**NOTES AND INSTRUCTIONS** [Continued]

<u>Transaction counterparty type</u>	<u>Margin required based on term of transaction</u>	
	<u>30 calendar days or less after regular settlement<sup>1</sup></u>	<u>Greater than calendar 30 days after regular settlement<sup>1</sup></u>
<u>Acceptable institution</u>	<u>No margin<sup>2</sup></u>	
<u>Acceptable counterparty</u>	<u>Market value deficiency<sup>2</sup></u>	<u>Margin</u>
<u>Regulated entity</u>	<u>Market value deficiency<sup>2</sup></u>	<u>Margin</u>
<u>Other</u>	<u>Margin</u>	<u>200% of margin (to a maximum of the market value of the underlying securities)</u>
<sup>1</sup> <u>Regular settlement means the settlement date or delivery date generally accepted according to industry practice for the relevant security in the market in which the transaction occurs. Margin is calculated from the date of regular settlement. Calendar days refer to the original term of the repurchase transaction.</u> <sup>2</sup> <u>Any transaction which has not been confirmed by an acceptable institution, acceptable counterparty or regulated entity within 15 business days of the trade shall be margined.</u>		

(ii) Where a written agreement has been entered into that includes all of the required minimum terms, the margin required to be provided shall be determined according to the following table:

<u>Transaction counterparty type</u>	<u>Margin required</u>
<u>Acceptable institution</u>	<u>No margin<sup>1</sup></u>
<u>Acceptable counterparty</u>	<u>Market value deficiency<sup>1</sup></u>
<u>Regulated entity</u>	<u>Market value deficiency<sup>1</sup></u>
<u>Other</u>	<u>Margin</u>
<sup>1</sup> <u>Any transaction which has not been confirmed by an acceptable institution, acceptable counterparty or regulated entity within 15 business days of the trade shall be margined.</u>	

8. For any given counterparty a deficiency in one type of loan may be offset by an excess in another type of loan provided that there are written agreements for each type of loan which provide for the right of offset between each type of loan. In such case, the balances may also be offset for margin calculation purposes.

9. In order for a pension fund to be treated as an acceptable institution for purposes of this Schedule, it must not only meet the acceptable institution criteria outlined in General Notes and Definitions, but the Dealer Member must also have received representation that the pension fund is legally able to enter into the obligations of the transaction. If such representation has not been received, the pension fund which otherwise meets the acceptable institution criteria must be treated as an acceptable counterparty.

**WHERE AN AGREEMENT HAS BEEN EXECUTED, THEN:**

8.10. Lines 3, 7, 4, 7 and 118 - In the case of a cash ~~borrowed and~~ loan payable or a securities loan ~~or repurchase transaction arrangement~~ between a Dealer Member and either an acceptable counterparty or a regulated entity, where an excess collateral deficiency exists, action must be taken to correct the deficiency. If no action is taken, the amount of excess collateral deficiency must be immediately provided out of the Dealer Member's capital. In any case, where the deficiency exists for more than one business day it must be provided out of the Dealer Member's capital.

9.11. Lines 4, 8, 11 and 12 - In the case of a ~~cash borrowed and securities loan or~~ repurchase transaction between a Dealer Member and either an acceptable counterparty or a regulated entity, where a deficiency exists between the market value of the ~~cash borrowed or securities loaned or~~ repurchased and the market value of the ~~collateral or~~ cash ~~pledged received~~, action must be taken to correct the deficiency. If no action is taken, the amount of market value

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**NOTES AND INSTRUCTIONS** [Continued]

deficiency must be immediately provided out of the Dealer Member's capital. In any case, where the deficiency exists for more than one business day, it must be provided out of the Dealer Member's capital.

- ~~10~~12. **Lines 5, 9, 9 and 13** - In the case of a cash ~~borrowed and~~ loan payable or a securities loan or a repurchase arrangement / transaction between a Dealer Member and a party other than an *acceptable institution, acceptable counterparty* or *regulated entity*, where a deficiency exists between the loan value of the cash ~~borrowed~~ received or securities ~~loaned~~ lent or repurchased and the loan value of the collateral or cash pledged, action must be taken to correct the deficiency. If no action is taken, the amount of loan value deficiency must be immediately provided out of the Dealer Member's capital. The margin required may be reduced by any margin already provided on the collateral (e.g. in inventory). Where the collateral is either held by the Dealer Member on a fully segregated basis or held in escrow on its behalf by an Acceptable Depository or a bank or trust company qualifying as either an *acceptable institution* or *acceptable counterparty*, only the amount of *market value* deficiency need be provided out of the Dealer Member's capital. In any case, where the deficiency exists for more than one business day, it must be provided out of the Dealer Member's capital.
- ~~11~~13. **Lines 2, 3 and 4** - In a cash ~~borrowed~~ loan payable transaction between a Dealer Member and an *acceptable institution, acceptable counterparty, or regulated entity*, where a letter of credit issued by a Schedule 1 Bank is used as collateral for the cash ~~borrowed~~ loan, there shall be no charge to the Dealer Member's capital for any excess of the value of the letter of credit pledged as collateral over the cash borrowed.
- ~~12~~14. **Lines 5, 9, and 13** - ~~Transactions~~ Arrangements other than those regarding agency agreements where an agent may be treated as equivalent to principal in Note 6(b) whereby an *acceptable institution, acceptable counterparty, or regulated entity* ~~are~~ is only acting as ~~agents~~ an agent (on behalf of an "other" party) should be reported and margined as "Others".

FORM 1, PART II – SCHEDULE 7A

DATE: \_\_\_\_\_

\_\_\_\_\_  
(Dealer Member Name)

**~~ACCEPTABLE COUNTERPARTIES FINANCING ACTIVITIES~~ CASH AND SECURITIES BORROWING AND  
LENDING ARRANGEMENTS CONCENTRATION CHARGE**

**CS'000**

1.	Sch. 1, Line 2	Market value deficiency amount relating to loans receivable from <i>acceptable counterparties</i> , net of legal offsets and margin already provided	-----
2.	Sch. 1, Line <del>63</del>	Market value deficiency amount relating to <del>securities borrowed from acceptable counterparties</del> <u>loans receivable from regulated entities</u> , net of legal offsets and margin already provided	-----
3.	Sch. 1, Line <del>106</del>	Market value deficiency amount relating to <del>resale agreements with</del> <u>securities borrowed from acceptable counterparties</u> , net of legal offsets and margin already provided	-----
4.	Sch. <del>7,1</del> Line <del>37</del>	Market value deficiency amount relating to <del>loans payable to acceptable counterparties</del> <u>securities borrowed from regulated entities</u> , net of legal offsets and margin already provided	-----
5.	Sch. 7, Line <del>73</del>	Market value deficiency amount relating to <del>securities lent</del> <u>loans payable</u> to <i>acceptable counterparties</i> , net of legal offsets and margin already provided	-----
6.	Sch. 7, Line <del>114</del>	Market value deficiency amount relating to <del>repurchase agreements with acceptable counterparties</del> <u>loans payable to regulated entities</u> , net of legal offsets and margin already provided	-----
<del>7.</del>	<del>Sch. 7, Line 7</del>	<del>Market value deficiency amount relating to securities lent to acceptable counterparties, net of legal offsets and margin already provided</del>	-----
<del>8.</del>	<del>Sch. 7, Line 8</del>	<del>Market value deficiency amount relating to securities lent to regulated entities, net of legal offsets and margin already provided</del>	-----
<del>7.9</del>		<del>TOTAL MARKET VALUE DEFICIENCY EXPOSURE WITH ACCEPTABLE COUNTERPARTIES</del> <u>AND REGULATED ENTITIES</u> , NET OF LEGAL OFFSETS AND MARGIN ALREADY PROVIDED [Sum of Lines 1 to 6]	=====
<del>8.1</del>		<del>CONCENTRATION THRESHOLD – 100% OF NET ALLOWABLE ASSETS</del>	-----
<del>9.1</del>		<del>FINANCING ACTIVITIES</del> CONCENTRATION CHARGE [Excess of Line <del>79</del> over Line <del>8,10</del> , otherwise NIL]	-----

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**Discussion of four types of counterparties defined within IIROC's capital and margin rules**

In order to more accurately assess the credit risk associated with dealing with individual and corporate clients, the IIROC capital and margin rules categorize each counterparty client with which a Dealer Member may transact as one of the following:

1. Acceptable institutions
2. Acceptable counterparties
3. Regulated entities
4. Other

**Acceptable institutions**

Acceptable institutions are considered the lowest credit risk clients. Dealer Members may transact with acceptable institutions on an unsecured basis provided that each transaction is confirmed within a reasonable period of time. The following clients qualify as acceptable institutions:

- Government of Canada, Bank of Canada and provincial governments and any related crown corporations and agencies;
- Foreign federal governments of signatory nations of the Basel Accord on banking and supervision;
- Canadian banks, Quebec savings banks, credit unions, caisses populaires, insurance companies, trust companies and loan companies licensed to do business in Canada or a province thereof with paid up capital and surplus in excess of \$100 million;
- Foreign banks and trust companies subject to a satisfactory regulatory regime<sup>1</sup> with paid up capital and surplus in excess of \$150 million;
- Canadian pension funds which are regulated either by the Office of Superintendent of Financial Institutions or a provincial pension commission, with total net assets in excess of \$200 million; and
- Foreign pension funds subject to a satisfactory regulatory regime with total net assets on the in excess of \$300 million.

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<sup>1</sup> For the purposes of this definition, a satisfactory regulatory regime will be one within Basel Accord countries.



**Acceptable counterparties**

Acceptable counterparties are considered to be clients of moderate credit risk. Dealer Members must, with some exceptions, transact with acceptable counterparties on a “value for value”<sup>2</sup> basis provided that each transaction is confirmed within a reasonable period of time. An exception is made for cash and security borrowing and lending transactions, as a modest amount of over-collateralization (i.e. 2% to 5%) is permitted in order to avoid requiring the dealer to post additional collateral during the term of the arrangement in response to minor market price fluctuations. The following clients qualify as acceptable counterparties:

- Canadian provincial capital cities and all other Canadian cities and municipalities, or their equivalents, with populations of 50,000 and over;
- Foreign federal governments which do not qualify as an “acceptable institution”;
- Canadian banks, Quebec savings banks, credit unions, caisses populaires, insurance companies, trust companies and loan companies licensed to do business in Canada or a province thereof with paid up capital and surplus in excess of \$10 million and less than or equal to \$100 million;
- Foreign banks and trust companies subject to a satisfactory regulatory regime<sup>3</sup> with paid up capital and surplus in excess of \$15 million and less than or equal to \$150 million;
- Foreign insurance companies subject to a satisfactory regulatory regime with paid up capital and surplus in excess of \$15 million;
- Canadian pension funds which are regulated either by the Office of Superintendent of Financial Institutions or a provincial pension commission, with total net assets in excess of \$10 million and less than or equal to \$200 million;
- Foreign pension funds subject to a satisfactory regulatory regime with total net assets on the in excess of \$15 million and less than or equal to \$300 million;
- Mutual funds subject to a satisfactory regulatory regime with total net assets in the fund in excess of \$10 million;
- Corporations other than “regulated entities” with a minimum net worth of \$75 million; and
- Trusts and limited partnerships with minimum total net assets in excess of \$100 million.

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<sup>2</sup> Transactions performed on a “value for value” basis are those where the market value of the cash or securities received in by the investment dealer is equal to the market value of the cash or securities delivered out by the investment dealer.

<sup>3</sup> For the purposes of this definition, a satisfactory regulatory regime will be one within Basel Accord countries.

**Regulated entities**

As is the case with acceptable counterparties, regulated entities are considered to be clients of moderate credit risk. Dealer Members must, with some exceptions, transact with regulated entities on a “value for value” basis provided that each transaction is confirmed within a reasonable period of time. To qualify as a regulated entity, the client must be a dealer and must be a member of the Canadian Investor Protection Fund or a member of a recognized exchange or association that:

- maintains or is a member of an investor protection regime equivalent to the Canadian Investor Protection Fund;
- requires the segregation by its members of customers’ fully paid for securities;
- that has rules that set out specific methodologies for the segregation of, or reserve for, customer credit balances;
- that has established rules regarding Dealer Member and customer account margining;
- that is subject to the regulatory oversight of a government agency or a self-regulatory organization under a government agency which conducts regular examinations of its members and monitors member’s regulatory capital on an ongoing basis; and
- that requires regular regulatory financial reporting by its members.

Examples of dealers that qualify as regulated entities include FINRA members, “full scope BIPR” investment firms regulated by the United Kingdom Financial Conduct Authority, firms with an Australian financial services licence regulated by the Australian Securities Exchange Limited and investment firms regulated by the Tokyo Stock Exchange, Inc.

**Other**

An “Other” counterparty is a client or dealer that does not qualify under any of the other counterparty categories. “Other” counterparties are considered to be clients of high credit risk. For this reason, no reliance is placed on the credit worthiness of the client/dealer and credit risk exposures may only be incurred with these clients in situations where the client has account security positions with regulatory “loan value”<sup>4</sup>.

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<sup>4</sup> The loan value of a security position is its market value less any margin required on the position to cover the risk of future loss.

Summary of margin impact of the amendments to certain cash and securities borrowing and lending arrangements

Ultimate securities borrow / lend agreement counterparty	Principal Agreement directly with ultimate counterparty	Principal Agreement where “Acceptable Institution” custodian is acting as a principal counterparty on behalf of ultimate counterparty	Agency Agreement (qualifying as equivalent to principal)			
			“Acceptable Institution” custodian is acting as an agent counterparty on behalf of ultimate counterparty	“Acceptable Counterparty” custodian is acting as an agent counterparty on behalf of ultimate counterparty	“Regulated Entity” custodian is acting as an agent counterparty on behalf of ultimate counterparty	“Other” counterparty custodian is acting as an agent counterparty on behalf of ultimate counterparty
<b>Acceptable Institution</b>	No margin is required where agreement is confirmed	No margin is required where agreement is confirmed	No margin is required where agreement is confirmed <i>[same as principal agreement with Acceptable Institution custodian]</i>	Margin required is excess overcollateralization amount <i>[same as principal agreement with Acceptable Counterparty custodian]</i>	Margin required is excess overcollateralization amount <i>[same as principal agreement with Regulated Entity custodian]</i>	Margin required is loan value deficiency amount <i>[same as principal agreement with Other counterparty custodian]</i>
<b>Acceptable Counterparty</b>	Margin required is excess overcollateralization amount	No margin is required where agreement is confirmed	No margin is required where agreement is confirmed <i>[same as principal agreement with Acceptable Institution custodian]</i>	Margin required is excess overcollateralization amount <i>[same as principal agreement with Acceptable Counterparty custodian]</i>	Margin required is excess overcollateralization amount <i>[same as principal agreement with Regulated Entity custodian]</i>	Margin required is loan value deficiency amount <i>[same as principal agreement with Other counterparty custodian]</i>
<b>Regulated Entity</b>	Margin required is excess overcollateralization amount	No margin is required where agreement is confirmed	No margin is required where agreement is confirmed <i>[same as principal agreement with Acceptable Institution custodian]</i>	Margin required is excess overcollateralization amount <i>[same as principal agreement with Acceptable Counterparty custodian]</i>	Margin required is excess overcollateralization amount <i>[same as principal agreement with Regulated Entity custodian]</i>	Margin required is loan value deficiency amount <i>[same as principal agreement with Other counterparty custodian]</i>
<b>Other Counterparty</b>	Margin required is loan value deficiency amount	No margin is required where agreement is confirmed	No margin is required where agreement is confirmed <i>[same as principal agreement with Acceptable Institution custodian]</i>	Margin required is excess overcollateralization amount <i>[same as principal agreement with Acceptable Counterparty custodian]</i>	Margin required is excess overcollateralization amount <i>[same as principal agreement with Regulated Entity custodian]</i>	Margin required is loan value deficiency amount <i>[same as principal agreement with Other counterparty custodian]</i>
<b>Legend for colours used in the diagram above</b>		Amendments’ margin result for broadened scope (to address typical situations where custodian agent is an Acceptable Institution)			Amendments’ margin result for broadened scope (to proactively address non-typical situations where custodian agent could be one of the other counterparty types)	