IIROC OCRCVM
Investment Industry Regulatory Organization of Canada
Organisme canadien de réglementation du commerce des valeurs mobilières

IIROC NOTICE

Rules Notice
Request for Comments
Dealer Member Rules

Comments Due By: July 25, 2016

Please distribute internally to:

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Internal Audit
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Regulatory Accounting
Senior Management
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Contact:
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16-0142
June 23, 2016

Non-material amendments to Schedule 12 of Form 1 and its Notes and Instructions

Executive Summary

On May 18, 2016, the Board of Directors (the Board) of IIROC approved the republication for comment of non-material amendments to Schedule 12 of Form 1 - *Margin on Futures Concentrations and Deposits* (the Schedule) and its Notes and Instructions (collectively, the Non-Material Amendments). The Schedule and its Notes and Instructions relate to the concentration margin calculation for futures and deposits.

The primary objective of the Non-Material Amendments is to re-organize and re-write the Schedule and its Notes and Instructions into a simpler and more logical format, making it easier to read and interpret.

Impacts

With the Non-Material Amendments, Dealer Members will benefit from enhanced clarity and certainty in the Schedule and the required concentration calculations.

We believe that the Non-Material Amendments will have no impact in terms of capital market structure, competition generally, cost of compliance and conformity with other rules. The Non-Material Amendments do not permit unfair discrimination among customers, issuers, brokers, dealers, members or others. It does not impose any burden on competition that is not necessary or appropriate in furtherance of the above purposes. There should be no significant technological implications for Dealer Members as a result of the Non-Material Amendments.

How to Submit Comments

Comments are requested on all aspects of the Non-Material Amendments, including any matter which they do not specifically address. Comments on the Non-Material Amendments should be in writing and delivered by **July 25** to:

Answerd Ramcharan
Manager, Financial Information, Member Regulation Policy
Investment Industry Regulatory Organization of Canada
Suite 2000, 121 King Street West
Toronto, Ontario M5H 3T9
email: aramcharan@iiroc.ca

A copy should also be provided to the Recognizing Regulators by forwarding a copy to:

Market Regulation
Ontario Securities Commission
Suite 1903, Box 55
20 Queen Street West
Toronto, Ontario M5H 3S8
e-mail: marketregulation@osc.gov.on.ca

Commenters should be aware that a copy of their comment letter will be made publicly available on the IIROC website at www.iiroc.ca.

Rules Notice - Table of Contents

1. Discussion of Non-Material Amendments

1.1 Relevant history and reason for republication

The Non-Material Amendments were originally part of a package of material and non-material amendments to the Schedule and its Notes and Instructions (the Original Proposal) published for comment in IIROC Rules Notice 12-0021 on January 20, 2012. In the Original Proposal the material amendments were to Line 1 - general margin provision in the Notes and Instructions to the Schedule.

In the past, maintenance margin rates were published by futures exchanges typically on a weekly or monthly basis. As a result, Line 1 was intended to act as a cushion over and above the published maintenance margin rates to reduce the likelihood that margin rates were insufficient at some point within the next week or month. However, many of the futures exchanges (e.g. NYMEX, CBOT, COMEX, Eurex, and Montréal Exchange) calculate maintenance margin rates *daily* and then either publish them daily or when they need to be changed, which results in more accurate market risk coverage on an ongoing basis. Consequently, under the Original Proposal we proposed to exclude the 15% margin provision for exchanges that calculate and publish maintenance margin rates on a daily basis.

We did not receive any public comments, but received comments from the Canadian Securities Administrators (the CSA). In light of these comments and the time we may require to address their concerns, we believe it is necessary to divide the Original Proposal into two proposals, the material amendments and the Non-Material Amendments, and republish them separately[1]. The purpose of republishing them separately is so that the material amendments do not delay the approval and implementation of the Non-Material Amendments.

1.2 Joint Rule Review Protocol requirements for republication

To meet the requirements under the Joint Rule Review Protocol, the republished Non-Material Amendments technically reflect that the material amendments to the Original Proposal have been removed and these changes are black-lined in Appendix B.

1.3 Other changes to the Original Proposal included in the Non-Material Amendments

In response to the CSA comments, we have made other changes to the Original Proposal that are included in the Non-Material Amendments to ensure that consistent language is used throughout the Schedule and its Notes and Instructions and to make the calculations clearer. These changes are non-material and are summarized as follows:

[1] IIROC Notice 16-0141– Rules Notice – Request for Comments – Material amendments to the Notes and Instructions to Schedule 12 of Form 1.

(1) to Line 1 of the Schedule, the words “open” and “short” were added to ensure that consistent language is used

(2) to Line 3 of the Schedule, the words “open” and “and short futures contract options” were added to ensure that consistent language is used

(3) to Note 1 of the Notes and Instructions, the words “commodity and financial futures” were removed and the words “in futures contracts and short futures contract options” were added to ensure that consistent language is used

(4) to Notes 5 and 6, the sentence “Spread positions in the same product or different product on the same exchange and an inter-exchange or inter-commodity spread could be included using the maintenance margin as set by the exchange, provided that the spread is acceptable for margin purposes by the applicable exchange.” was moved from Note 6 to Note 5 to make the calculations clearer

(5) to Note 6, the word “amount” was added to ensure that consistent language is used

(6) to Notes 7 and 8, the sentence “Spread positions in the same product or different product on the same exchange and an inter-exchange or inter-commodity spread could be included using the maintenance margin as set by the exchange, provided that the spread is acceptable for margin purposes by the applicable exchange.” was moved from Note 8 to Note 7 to make the calculations clearer

(7) to Note 10, the word “without” was replaced with the word “before” to make the calculations clearer.

These changes are also shown as black-line changes in Appendix B.

2. Analysis

2.1 Current Schedule and its Notes and Instructions

The Schedule currently requires Dealer Members to provide margin on commodity and commodity futures positions and related deposits with correspondent brokers to cover possible commodity concentration risk and related counterparty risk. The Schedule contains the following four separate margin calculations on Lines 1 through 4:

- a general margin calculation
- a concentration margin in individual accounts calculation
- a concentration margin in individual commodities calculation
- a “deposits with correspondent brokers” margin calculation.

The Notes and Instructions to the Schedule detail those calculations.

2.2 Reasons for the Non-Material Amendments

The Schedule and its accompanying Notes and Instructions require updating to:

- reflect changes in the futures markets over the past several years, including:
  - the introduction of futures contracts on other asset classes beyond commodities (e.g. financial futures contracts)
  - the fact that there are more valid risk-reduction offset strategies that are recognized by the futures exchanges
- make the Schedule easier to understand and complete.

The Non-Material Amendments would therefore clarify that the Schedule covers both commodities and financial futures, stipulate the additional risk-reduction offset strategies that can be excluded from the margin calculations, and make the margin calculations clearer.

2.3 Benefits of the Non-Material Amendments

The benefits of the Non-Material Amendments are:

- a more comprehensive set of margin requirements that will cover futures contracts on other asset classes
- a more logically organized set of margin requirements that would be easier to read and interpret
- a set of margin requirements that are more reflective of current industry practices.

2.4 Details of the Non-Material Amendments

The following are the Non-Material Amendments and reasons for them:

Changes to Schedule 12 of Form 1

(1) *Renaming Lines 1 through 4:*

The proposed amendments will rename Lines 1 through 4. The purpose of renaming these Lines is to make them more concise and/or precise. The Lines will be renamed as follows:

- Line 1: “Total open futures contract and short futures contract option positions” from “Margin on total positions”
- Line 2: “Concentration in individual accounts” from “Margin regarding concentration in individual accounts”
- Line 3: “Concentration in individual open futures contracts and short futures contract options” from “Margin regarding concentration in individual futures contracts”

- Line 4: "Deposits with correspondent brokers" from "Margin on futures contract deposits - correspondent brokers".

Changes to the Notes and Instructions

(2) *Setting out definitions for the purposes of the Schedule:*
The proposed amendments will define the terms "correspondent broker", "futures contracts", "long futures contract positions", "short futures contract positions", and "maintenance margin requirements" at the beginning of the Notes and Instructions. Defining these terms will ensure consistency in their meaning and use throughout the Schedule. *[Beginning of the Notes and Instructions]*

(3) *Allowing the exclusion of futures contract spread positions with different delivery months:*
Under the current Notes and Instructions, there is a divergence of practices among Dealer Members in calculating this provision for Line 1. Some Dealer Members are calculating this provision on a net product/commodity basis. That is, they are calculating the net value of the futures contracts irrespective of their contract months. Other Dealer Members are viewing each futures contract month as a separate product/commodity and are taking the greater of the long or short position on each contract month. The proposed amendment will allow the netting of futures contracts irrespective of their contract months given that the underlying commodity is the same and the futures contracts are traded on the same futures exchange. This proposed amendment is consistent with IIROC staff's previous interpretation on this Line 1 calculation. *[Line 1 Notes and Instructions]*

(4) *Clarifying the exclusion of paired short option positions on futures contracts:*
Current Note 1 (1.3) in the Schedule needs to be more specific when describing the short option positions that should be excluded from the concentration calculations of Lines 2 and 3. The purpose of the exclusions is to exclude all positions that will not result in concentration risk to the firm. For example, current Note 1 (1.3)(iv) states that a short option paired with a futures contract can be excluded from the calculation. This may result in various combinations which may result in a loss. The proposed amendments will clarify the type of short option pairings to be excluded. Using the example above, the provision will now state that a short *call (put)* should be paired with a *long (short)* futures contract if the pairing is to be excluded from the respective calculations. *[Lines 2 and 3 Notes and Instructions]*

(5) *Clarifying the treatment of maintenance margin deposits with correspondent brokers:*
In the current Notes and Instructions to Line 4 (margin on commodity deposits with correspondent brokers) it is unclear if maintenance margin deposits should, when calculating the excess amount, be included or excluded from the assets owed to a Dealer

Member from a correspondent broker. The proposed amendment would require maintenance margin deposits with a correspondent broker to be included as assets owing to a Dealer Member for the excess amount calculation. This proposed amendment is consistent with IIROC staff's previous interpretation on this Line 4 calculation. *[Line 4 Notes and Instructions]*

(6) *Covering the situation when the net worth of a correspondent broker is exactly $50 million:* The current wording does not cover the margin required when the net worth of a correspondent broker is exactly $50 million. The proposed amendment adds the phrase "or equal to" to the provision where margin is required when the net worth of the correspondent broker is less than $50 million. *[Line 4 Notes and Instructions]*

(7) *Deleting the letter of credit provision:* This proposed amendment removes the letter of credit provision, which allowed a Dealer Member to rely on a Commodity Futures Correspondent Broker's unconditional and irrevocable letter of credit issued by a U.S. bank, if the Commodity Futures Correspondent Broker's net worth was less than $50 million. Letters of credit are rarely used in this circumstance; furthermore, the ability to cash in letters of credit, given the observed liquidity risks in the 2008 financial crisis, is highly uncertain. Removing the letter of credit would result in a more stringent provision. *[Line 4 Notes and Instructions]*

2.5 Issues and alternatives considered

The Non-Material Amendments do not create any onerous new obligations for Dealer Members and have been drafted to clarify the existing requirements with respect to margin calculations on futures concentrations and deposits.

The other alternative we considered was to withdraw the entire Original Proposal. We rejected this alternative because proceeding with the non-material amendments of the Original Proposal would be beneficial to Dealer Members and IIROC staff, by making the Schedule and related Notes and Instructions easier to interpret.

We are aware of one outstanding issue that may affect some Dealer Members. The Schedule allows a Dealer Member to use spread position maintenance margin as an alternative to higher individual position maintenance margin, in certain circumstances, for the concentration tests on Lines 2 and 3. We understand that spread position maintenance margin is no longer calculated and published by some futures exchanges that use the Standard Portfolio Analysis of Risk (SPAN) system margin methodology. As a result, affected Dealer Members must use the individual position maintenance margin, which may result in concentration charges that are not reflective of the position risks.

In addition to this issue, there are other broader issues that could impact the Schedule such as portfolio margining and the segregation and portability of client futures positions. We intend to review these related issues and their impact on the Schedule, which may result in future amendments.

In the interim, we encourage any Dealer Member affected by the unavailability of spread position maintenance margin to contact us to discuss options for addressing the issue until a long-term solution is developed.

2.6 Comparison with similar provisions

Both the United Kingdom and the United States have concentration rules for commodities futures and options on futures. Since the Non-Material Amendments are technical in nature, a detailed comparison to these rules was considered unnecessary.

3. Impacts of the Non-Material Amendments

With the Non-Material Amendments, Dealer Members will benefit from enhanced clarity and certainty in the Schedule and the required concentration calculations.

We believe that the Non-Material Amendments will have no impact in terms of capital market structure, competition generally, cost of compliance and conformity with other rules. The Non-Material Amendments do not permit unfair discrimination among customers, issuers, brokers, dealers, members or others. They do not impose any burden on competition that is not necessary or appropriate in furtherance of the above purposes. There should be no significant technological implications for Dealer Members as a result of the Non-Material Amendments.

4. Policy Development Process

4.1 Regulatory purpose

The purposes of the Non-Material Amendments are to:

- *establish and maintain rules that are necessary or appropriate to govern and regulate all aspects of IIROC's functions and responsibilities as a self-regulatory entity*
- *foster cooperation and coordination with entities engaged in regulating, clearing, settling, processing information with respect to, and facilitating transactions in, securities*
- *promote the protection of investors.*

In deciding to propose the Non-Material Amendments, IIROC identified that there was a need to enhance clarity in the Schedule and its Notes and instructions.

This need was assessed as being in the public interest and not detrimental to the best interests of the capital markets. As a result, the Board has classified the Non-Material Amendments as a Public Comment Rule proposal that is not contrary to the public interest.

4.2 Rule making process

IIROC staff developed the Non-Material Amendments and consulted with the IIROC policy advisory committees (the FAS Capital Formula Subcommittee and the Financial Administrators Section (FAS)). These policy advisory committees recommended the Non-Material Amendments for approval.

5. Appendices

Appendix A - Non-Material Amendments to Schedule 12 of Form 1 and its Notes and Instructions

Appendix B - Black-line comparison of Non-Material Amendments to Original Proposal

Appendix C - Black-line comparison of Non-Material Amendments to current Schedule 12 of Form 1 and its Notes and Instructions

Appendix A

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

NON-MATERIAL AMENDMENTS TO SCHEDULE 12 OF FORM 1 AND ITS NOTES AND INSTRUCTIONS

NON-MATERIAL AMENDMENTS

1. IFRS-based Schedule 12 of Form 1 is amended by:

    (a) Adding "'s" after the words "Dealer Member";

    (b) Adding the words "*notes and*" after the words "*refer to*";

    (c) Adding the words "Margin required" above the column "C$'000";

    (d) Replacing the words "Margin on total" with the words "Total open futures contract and short futures contract option" on Line 1;

    (e) Replacing the words "Margin regarding concentration" with the word "Concentration" on Line 2;

    (f) Replacing the words "Margin regarding concentration" with the word "Concentration" on Line 3;

    (g) Adding the word "open" immediately before the word "futures" on Line 3;

    (h) Adding the words "and short futures contract options" immediately after the word "contract" on Line 3;

    (i) Replacing the words "Margin on futures contract deposits -" with the words "Deposits with" on Line 4; and

    (j) Adding the words "*[lines 1 through 4]*" after the word "TOTAL" on Line 5.

2. The Notes and Instructions to Schedule 12 of Form 1 is amended by repealing and replacing it with the attached.

Appendix A

FORM 1, PART II – SCHEDULE 12
NOTES AND INSTRUCTIONS

1. The purpose of Schedule 12 is to ensure that there is adequate capital available at a Dealer Member to cover concentration risks regarding positions in futures contracts and short futures contract options and counterparty risk related to deposits with correspondent brokers.

2. For the purposes of this schedule the term:

   (i) **"correspondent broker"** means a broker who is registered to engage in soliciting or accepting and handling orders for the purchase or sale of futures contracts or futures contract options on the behalf of the Dealer Member in a country other than Canada;

   (ii) **"futures contracts"** includes commodity futures and financial futures contracts;

   (iii) **"long futures contract positions"** includes futures contracts underlying short put options on futures contracts;

   (iv) **"maintenance margin requirements"** means the requirements prescribed by the futures exchange on which the futures contracts were entered into; and

   (v) **"short futures contract positions"** includes futures contracts underlying short call options on futures contracts.

3. **Line 1 - General margin provision (Notes 3 and 4)**

   Line 1 is used to establish a base level of capital to be provided by a Dealer Member firm, which is dependent on the number and type of contracts currently held by the Dealer Member and its clients.

   The general margin provision calculation is on the Dealer Member and client account open positions in futures contracts and futures contract options, except for the specified excluded positions in the related Note below.

   The margin required is 15% of the greater of:

   (i) the maintenance margin requirements of the total long futures contract positions for each type of futures contract carried for all Dealer Member and client accounts; or

   (ii) the maintenance margin requirements of the total short futures contract positions for each type of futures contract carried for all Dealer Member and client accounts.

4. **Excluded positions from the calculation of Line 1**

   (i) Positions held in accounts of acceptable institutions, acceptable counterparties and regulated entities.

   (ii) Hedge positions (as opposed to speculative positions) where the underlying interest is held in the client's account at the Dealer Member or that the Dealer Member has a document giving the Dealer Member an irrevocable right to take possession of the underlying interest and deliver it at the location designated by the appropriate clearing corporation.

   All other hedge positions are treated as speculative positions for the purpose of this calculation.

   (iii) Dealer Member or individual client spread positions in futures contracts in the same product (including futures contracts in the same product with different delivery months) entered into on the same futures exchange.

   All other spread positions are treated as speculative positions for the purpose of this calculation.

   (iv) Dealer Member or individual client short option positions on futures contracts which are out-of-the-money by more than two maintenance margin requirements.

   (v) Dealer Member or individual client spread positions in the same futures contract options.

5. **Line 2 - Concentration in individual accounts (Notes 5, 6 and 9)**

Line 2 requires capital to be provided to cover concentration risk in individual accounts (client or the Dealer Member) when the aggregate of the maintenance margin requirements for each type of futures contract position or underlying interest on futures contract option position held both long and short for individual clients (including groups of clients or related clients) or in the Dealer Member's inventory is greater than 15% of the Dealer Member's net allowable assets. The concentration risk is the excess amount of the aggregate of those maintenance margin requirements over 15% of the Dealer Member's net allowable assets.

The capital to be provided is dependent on the excess amount calculation below (which allows for specified deductions and excluded positions in the related Notes below) and how quickly the Dealer Member eliminates this concentration risk.

Spread positions in the same product or different product on the same exchange and an inter-exchange or inter-commodity spread could be included using the maintenance margin as set by the exchange, provided that the spread is acceptable for margin purposes by the applicable exchange.

The excess amount is:

(i) the aggregate of the maintenance margin requirements for each type of futures contract position or underlying interest on futures contract option position held both long and short for individual clients (including groups of clients or related clients) or in the Dealer Member's inventory, except for positions mentioned in Note 9; minus

(ii) 15% of the Dealer Member's net allowable assets.

Margin is required on the close of the third trading day after the concentration first occurred and is the lesser of:

(i) the excess amount calculated when the concentration first occurred; and

(ii) the excess amount, if any, that exists on the close of the third trading day.

6. **Deductions from Part (i) of the excess amount calculation of Line 2**

(i) Any excess margin in the Dealer Member account or client's account is to be deducted from Part (i) of the excess amount calculation. The excess margin is to be based on the maintenance margin.

7. **Line 3 - Concentration in individual open futures contracts and short options on futures contract positions (Notes 7 to 9)**

Line 3 requires capital to be provided to cover concentration risk in individual open futures contracts and short options on futures contract positions when the aggregate of two maintenance margin requirements on the greater of the long or the short futures contracts positions for each type of futures contract position or underlying interest of futures contract option position, held in both the Dealer Member's inventory and for all clients, is greater than 40% of the Dealer Member's net allowable assets. The concentration risk is the excess amount of those aggregate of two maintenance margin requirements over 40% of the Dealer Member's net allowable assets.

The capital to be provided is dependent on the excess amount calculation below (which allows for specified deductions and excluded positions in the related Notes below) and how quickly the Dealer Member eliminates this concentration risk.

Spread positions in the same product or different product on the same exchange and an inter-exchange or inter-commodity spread could be included using the maintenance margin as set by the exchange, provided that the spread is acceptable for margin purposes by the applicable exchange.

The excess amount is:

(i) the aggregate of two maintenance margin requirements on the greater of the long or the short futures contracts positions for each type of futures contract position or underlying interest of futures contract option position, held in both the Dealer Member's inventory and for all clients, except for positions mentioned in Note 9; minus

(ii) 40% of the Dealer Member's net allowable assets.

Margin is required on the close of the third trading day after the concentration first occurred and is the lesser of:

(i) the excess amount calculated when the concentration first occurred; and

(ii) the excess amount, if any, that exists on the close of the third trading day.

8. **Deductions from Part (i) of the excess amount calculation of Line 3**

(i) Any excess margin may be deducted from Part (i) of the excess amount calculation, up to two maintenance margin requirements in the Dealer Member account or client's account (on a per client basis). The excess margin is to be based on the maintenance margin.

9. **Excluded positions from Part (i) of the excess amount calculation of Lines 2 and 3**

(i) Positions held in accounts of acceptable institutions, acceptable counterparties and regulated entities.

(ii) Hedge positions (as opposed to speculative positions), where the underlying interest is held in the client's account at the Dealer Member or that the Dealer Member has a document giving the Dealer Member an irrevocable right to take possession of the underlying interest and deliver it at the location designated by the appropriate clearing corporation.

All other hedge positions are treated as speculative positions and are thereby not excluded.

(iii) The following short option positions on futures contracts in a Dealer Member or client account, and provided that the pairings are acceptable for margin purposes by the applicable exchange:

(a) short calls or puts which are out-of-the-money by more than two maintenance margin requirements;

(b) a short call and a short put pairing on the same futures contract with the same exercise price and same expiration month;

(c) a futures contract paired with an in-the-money option;

(d) a short call (put) paired with a long in-the-money call (put);

(e) a short call (put) paired with a long (short) futures contract;

(f) an out-of-the-money short call paired with an out-of-the-money long call, where the strike price of the short call exceeds the strike price of the long call; and

(g) an out-of-the-money short put paired with an out-of-the-money long put.

10. **Line 4 - Margin on deposits with correspondent brokers**

(i) Where a correspondent broker owes assets (including cash, open trade equity and securities) to a Dealer Member exceeding 50% of the Dealer Member's net allowable assets, the excess amount must be provided as a charge in computing the Dealer Member's margin required.

The assets owing to the Dealer Member are the amount of deposits before reducing this amount by the maintenance margin requirements for all open positions.

(ii) Where the net worth of the correspondent broker (as determined from its latest published audited financial statements) is:

(a) greater than $50,000,000, no margin is required under this rule;

(b) less than or equal to $50,000,000, the Dealer Member must provide the amount calculated in Note 10(i).

(iii) Where a Dealer Member who operates its futures contracts and futures contract options business on a fully disclosed basis with a correspondent broker, no exemption from this requirement is permitted.

Appendix B

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

NON-MATERIAL AMENDMENTS TO SCHEDULE 12 OF FORM 1 AND ITS NOTES AND INSTRUCTIONS

BLACK-LINE COMPARISON OF NON-MATERIAL AMENDMENTS TO ORIGINAL PROPOSAL

Appendix B

INVESTMENT INDUSTRY REGULATORY ORGANIZATION OF CANADA

NON-MATERIAL AMENDMENTS TO SCHEDULE 12 OF FORM 1 AND ~~THE~~ITS NOTES AND INSTRUCTIONS ~~TO SCHEDULE 12 OF FORM 1~~

~~PROPOSED~~ NON-MATERIAL AMENDMENTS

1. IFRS-based Schedule 12 of Form 1 is amended by:

    (a) Adding "'s" after the words "Dealer Member";

    (b) Adding the words "*notes and*" after the words "*refer to*";

    (c) Adding the words "Margin required" above the column "C$'000";

    (d) Replacing the words "Margin on total" with the words "Total open futures contract and short futures contract option" on Line 1;

    (e) Replacing the words "Margin regarding concentration" with the word "Concentration" on Line 2;

    (f) Replacing the words "Margin regarding concentration" with the word "Concentration" on Line 3;

    (g) Adding the word "open" immediately before the word "futures" on Line 3;

    (h) Adding the words "and short futures contract options" immediately after the word "contract" on Line 3;

    (i) Replacing the words "Margin on futures contract deposits -" with the words "Deposits with" on Line 4; and

    (~~h~~j) Adding the words "*[lines 1 through 4]*" after the word "TOTAL" on Line 5.

2. The ~~IFRS-based~~ Notes and Instructions to Schedule 12 of Form 1 is amended by repealing and replacing it with the attached.

Appendix B

FORM 1, PART II – SCHEDULE 12
NOTES AND INSTRUCTIONS

1. The purpose of Schedule 12 is to ensure that there is adequate capital available at a Dealer Member to cover concentration risks regarding ~~commodity and financial futures~~ positions in futures contracts and short futures contract options and counterparty risk related to deposits with correspondent brokers.

2. For the purposes of this schedule the term:

   (i) **"correspondent broker"** means a broker who is registered to engage in soliciting or accepting and handling orders for the purchase or sale of futures contracts or futures contract options on the behalf of the Dealer Member in a country other than Canada;

   (ii) **"futures contracts"** includes commodity futures and financial futures contracts;

   (iii) **"long futures contract positions"** includes futures contracts underlying short put options on futures contracts;

   (iv) **"maintenance margin requirements"** means the requirements prescribed by the futures exchange on which the futures contracts were entered into; and

   (v) **"short futures contract positions"** includes futures contracts underlying short call options on futures contracts.

3. **Line 1 - General margin provision (Notes 3 and 4)**

   Line 1 is used to establish a base level of capital ~~that~~to be provided by a Dealer Member ~~is to provide when the maintenance margin requirements (calculated and published by the futures exchange in which the futures contracts and futures contract options are entered) are not calculated on a daily basis. The base level of capital~~firm, which is dependent on the number and type of contracts currently held by the Dealer Member and its clients.

   The general margin provision calculation is on the Dealer Member and client account open positions in futures contracts and futures contract options, except for the specified excluded positions in the related Note below.

   The margin required is 15% of the greater of:

   (i) the maintenance margin requirements of the total long futures contract positions for each type of futures contract carried for all Dealer Member and client accounts; or

   (ii) the maintenance margin requirements of the total short futures contract positions for each type of futures contract carried for all Dealer Member and client accounts.

   ~~Where a futures exchange calculates and publishes maintenance margin requirements on a daily basis, no margin is required under Line 1.~~

4. **Excluded positions from the calculation of Line 1**

   (i) Positions held in accounts of acceptable institutions, acceptable counterparties and regulated entities.

   (ii) Hedge positions (as opposed to speculative positions) where the underlying interest is held in the client's account at the Dealer Member or that the Dealer Member has a document giving the Dealer Member an irrevocable right to take possession of the underlying interest and deliver it at the location designated by the appropriate clearing corporation.

   All other hedge positions are treated as speculative positions for the purpose of this calculation.

   (iii) Dealer Member or individual client spread positions in futures contracts in the same product (including futures contracts in the same product with different delivery months) entered into on the same futures exchange.

   All other spread positions are treated as speculative positions for the purpose of this calculation.

(iv) Dealer Member or individual client short option positions on futures contracts which are out-of-the-money by more than two maintenance margin requirements.

(v) Dealer Member or individual client spread positions in the same futures contract options.

5. **Line 2 - Concentration in individual accounts (Notes 5, 6 and 9)**

Line 2 requires capital to be provided to cover concentration risk in individual accounts (client or the Dealer Member) when the aggregate of the maintenance margin requirements for each type of futures contract position or underlying interest on futures contract option position held both long and short for individual clients (including groups of clients or related clients) or in the Dealer Member's inventory is greater than 15% of the Dealer Member's net allowable assets. The concentration risk is the excess amount of the aggregate of those maintenance margin requirements over 15% of the Dealer Member's net allowable assets.

The capital to be provided is dependent on the excess amount calculation below (which allows for specified deductions and excluded positions in the related Notes below) and how quickly the Dealer Member eliminates this concentration risk.

Spread positions in the same product or different product on the same exchange and an inter-exchange or inter-commodity spread could be included using the maintenance margin as set by the exchange, provided that the spread is acceptable for margin purposes by the applicable exchange.

The excess amount is:

(i) the aggregate of the maintenance margin requirements for each type of futures contract position or underlying interest on futures contract option position held both long and short for individual clients (including groups of clients or related clients) or in the Dealer Member's inventory, except for positions mentioned in Note 9; minus

(ii) 15% of the Dealer Member's net allowable assets.

Margin is required on the close of the third trading day after the concentration first occurred and is the lesser of:

(i) the excess amount calculated when the concentration first occurred; and

(ii) the excess amount, if any, that exists on the close of the third trading day.

6. **Deductions from Part (i) of the excess amount calculation of Line 2**

(i) Any excess margin in the Dealer Member account or client's account is to be deducted from Part (i) of the excess amount calculation. The excess margin is to be based on the maintenance margin. ~~Spread positions in the same product or different product on the same exchange and an inter-exchange or inter-commodity spread could be included using the maintenance margin as set by the exchange, provided that the spread is acceptable for margin purposes by the applicable exchange.~~

7. **Line 3 - Concentration in individual open futures contracts and short options on futures contract positions (Notes 7 to 9)**

Line 3 requires capital to be provided to cover concentration risk in individual open futures contracts and short options on futures contract positions when the aggregate of two maintenance margin requirements on the greater of the long or the short futures contracts positions for each type of futures contract position or underlying interest of futures contract option position, held in both the Dealer Member's inventory and for all clients, is greater than 40% of the Dealer Member's net allowable assets. The concentration risk is the excess amount of those aggregate of two maintenance margin requirements over 40% of the Dealer Member's net allowable assets.

The capital to be provided is dependent on the excess amount calculation below (which allows for specified deductions and excluded positions in the related Notes below) and how quickly the Dealer Member eliminates this concentration risk.

Spread positions in the same product or different product on the same exchange and an inter-exchange or inter-commodity spread could be included using the maintenance margin as set by the exchange, provided that the spread is acceptable for margin purposes by the applicable exchange.

The excess amount is:

(i) the aggregate of two maintenance margin requirements on the greater of the long or the short futures contracts positions for each type of futures contract position or underlying interest of futures contract option position, held in both the Dealer Member's inventory and for all clients, except for positions mentioned in Note 9; minus

(ii) 40% of the Dealer Member's net allowable assets.

Margin is required on the close of the third trading day after the concentration first occurred and is the lesser of:

(i) the excess amount calculated when the concentration first occurred; and

(ii) the excess amount, if any, that exists on the close of the third trading day.

8. **Deductions from Part (i) of the excess amount calculation of Line 3**

(i) Any excess margin may be deducted from Part (i) of the excess amount calculation, up to two maintenance margin requirements in the Dealer Member account or client's account (on a per client basis). The excess margin is to be based on the maintenance margin~~. Spread positions in the same product or different product on the same exchange and an inter-exchange or inter-commodity spread could be included using the maintenance margin as set by the exchange, provided that the spread is acceptable for margin purposes by the applicable exchange~~.

9. **Excluded positions from Part (i) of the excess amount calculation of Lines 2 and 3**

(i) Positions held in accounts of acceptable institutions, acceptable counterparties and regulated entities.

(ii) Hedge positions (as opposed to speculative positions), where the underlying interest is held in the client's account at the Dealer Member or that the Dealer Member has a document giving the Dealer Member an irrevocable right to take possession of the underlying interest and deliver it at the location designated by the appropriate clearing corporation.

All other hedge positions are treated as speculative positions and are thereby not excluded.

(iii) The following short option positions on futures contracts in a Dealer Member or client account, and provided that the pairings are acceptable for margin purposes by the applicable exchange:

(a) short calls or puts which are out-of-the-money by more than two maintenance margin requirements;

(b) a short call and a short put pairing on the same futures contract with the same exercise price and same expiration month;

(c) a futures contract paired with an in-the-money option;

(d) a short call (put) paired with a long in-the-money call (put);

(e) a short call (put) paired with a long (short) futures contract;

(f) an out-of-the-money short call paired with an out-of-the-money long call, where the strike price of the short call exceeds the strike price of the long call; and

(g) an out-of-the-money short put paired with an out-of-the-money long put.

10. **Line 4 - Margin on deposits with correspondent brokers**

(i) Where a correspondent broker owes assets (including cash, open trade equity and securities) to a Dealer Member exceeding 50% of the Dealer Member's net allowable assets, the excess amount must be provided as a charge in computing the Dealer Member's margin required.

The assets owing to the Dealer Member are the amount of deposits ~~without~~before reducing this amount by the maintenance margin requirements for all open positions.

FORM 1, PART II – SCHEDULE 12

NOTES AND INSTRUCTIONS [Continued]

(ii) Where the net worth of the correspondent broker (as determined from its latest published audited financial statements) is:

  (a) greater than $50,000,000, no margin is required under this rule;

  (b) less than or equal to $50,000,000, the Dealer Member must provide the amount calculated in Note 10(i).

(iii) Where a Dealer Member who operates its futures contracts and futures contract options business on a fully disclosed basis with a correspondent broker, no exemption from this requirement is permitted.

Appendix C

Investment Industry Regulatory Organization of Canada

Non-material Amendments to Schedule 12 of Form 1 and its Notes and Instructions

Black-Line Comparison of Non-Material Amendments to Current Schedule 12 and its Notes and Instructions

FORM 1, PART II – SCHEDULE 12

DATE: ______________________

____
(Dealer Member's Name)

MARGIN ON FUTURES CONCENTRATIONS AND DEPOSITS
(*refer to notes and instructions*)

		Margin required C$'000
1.	~~Margin on total~~Total open futures contract and short futures contract option positions	----------------------
2.	~~Margin regarding concentration~~Concentration in individual accounts	----------------------
3.	~~Margin regarding concentration~~Concentration in individual open futures contracts and short futures contract options	----------------------
4.	~~Margin on futures contract deposits~~ Deposits with correspondent brokers	----------------------
5.	TOTAL *[lines 1 through 4]*	======
		B-18

Appendix C

FORM 1, PART II – SCHEDULE 12
NOTES AND INSTRUCTIONS

~~**Line 1 - General margin provision.** The margin requirement for futures contracts and options on futures contracts shall be 15% of the~~ 1. The purpose of Schedule 12 is to ensure that there is adequate capital available at a Dealer Member to cover concentration risks regarding positions in futures contracts and short futures contract options and counterparty risk related to deposits with correspondent brokers.

2. For the purposes of this schedule the term:

   (i) **"correspondent broker"** means a broker who is registered to engage in soliciting or accepting and handling orders for the purchase or sale of futures contracts or futures contract options on the behalf of the Dealer Member in a country other than Canada;

   (ii) **"futures contracts"** includes commodity futures and financial futures contracts;

   (iii) **"long futures contract positions"** includes futures contracts underlying short put options on futures contracts;

   (iv) **"maintenance margin requirements**~~, as required by the Commodity Futures Exchange on which such~~**"** means the requirements prescribed by the futures exchange on which the futures contracts were entered into~~, for the greater of the total long or total short futures contracts per commodity or financial futures carried for all client and~~; and

   (v) **"short futures contract positions"** includes futures contracts underlying short call options on futures contracts.

3. **Line 1 - General margin provision (Notes 3 and 4)**

   Line 1 is used to establish a base level of capital to be provided by a Dealer Member firm, which is dependent on the number and type of contracts currently held by the Dealer Member ~~accounts. For the purpose of this~~and its clients.

   The general margin provision~~, short futures contracts positions include futures contracts underlying the short call options on~~ calculation is on the Dealer Member and client account open positions in futures contracts and ~~long~~ futures ~~contracts positions include futures contracts underlying the short put options on futures contracts~~contract options, except for the specified excluded positions in the related Note below.

   The ~~following positions are excluded from this calculation:~~margin required is 15% of the greater of:

   (i) the maintenance margin requirements of the total long futures contract positions for each type of futures contract carried for all Dealer Member and client accounts; or

   (ii) the maintenance margin requirements of the total short futures contract positions for each type of futures contract carried for all Dealer Member and client accounts.

4. **Excluded positions from the calculation of Line 1**

   (~~a)~~ ~~positions~~i) Positions held in accounts of acceptable ~~*institution*~~institutions, acceptable ~~*counterparty*~~counterparties and regulated ~~*entity* accounts;~~entities.

   (~~b~~ii) ~~hedge~~Hedge positions (as opposed to speculative positions)~~, provided that~~ where the underlying interest is held in the client's account at the Dealer Member or that the Dealer Member has a document giving the Dealer Member an irrevocable right to take possession of the underlying interest and deliver it at the location designated by the appropriate clearing corporation.

   All other hedge positions are treated as speculative positions for the purpose of this calculation~~;~~.

   (~~c~~iii) ~~client and Dealer Member spreads in the same futures contract~~Dealer Member or individual client spread positions in futures contracts in the same product (including futures contracts in the same product with different delivery months) entered into on the same futures exchange.

All other spread positions are treated as speculative positions for the purpose of this calculation~~;~~.

(~~d)~~ ~~The following options on futures contracts~~iv) Dealer Member or individual client short option positions:~~(i) short options~~ on futures contracts which are out-of-the-money by more than two maintenance margin requirements~~; and~~.

(~~ii)~~ ~~spreads~~v) Dealer Member or individual client spread positions in the same ~~options on~~ futures ~~contracts~~contract options.

~~**Line 2 - Concentration in individual accounts.** The Dealer Member must provide for the amount by which;~~5. **Line 2 - Concentration in individual accounts (Notes 5, 6 and 9)**

~~(a) the aggregate of the maintenance margin requirements of the commodity or financial futures or underlying interest of option on futures contracts held both long and short for any client (including without limitation groups of clients or related clients) or in inventory, except for positions mentioned in Note 1 below, less any excess margin provided~~

~~exceeds~~

Line 2 requires capital to be provided to cover concentration risk in individual accounts (client or the Dealer Member) when the aggregate of the maintenance margin requirements for each type of futures contract position or underlying interest on futures contract option position held both long and short for individual clients (including groups of clients or related clients) or in the Dealer Member's inventory is greater than 15% of the Dealer Member's net allowable assets. The concentration risk is the excess amount of the aggregate of those maintenance margin requirements over 15% of the Dealer Member's net allowable assets.

The capital to be provided is dependent on the excess amount calculation below (which allows for specified deductions and excluded positions in the related Notes below) and how quickly the Dealer Member eliminates this concentration risk.

Spread positions in the same product or different product on the same exchange and an inter-exchange or inter-commodity spread could be included using the maintenance margin as set by the exchange, provided that the spread is acceptable for margin purposes by the applicable exchange.

The excess amount is:

(i) the aggregate of the maintenance margin requirements for each type of futures contract position or underlying interest on futures contract option position held both long and short for individual clients (including groups of clients or related clients) or in the Dealer Member's inventory, except for positions mentioned in Note 9; minus

(~~b~~ii) 15% of the Dealer Member's net allowable assets.

Margin is required on the close of the third trading day after the concentration first occurred and is the lesser of:

(i) the excess amount calculated when the concentration first occurred; and

(ii) the excess amount, if any, that exists on the close of the third trading day.

6. **Deductions from Part (i) of the excess amount calculation of Line 2**

(i) Any excess margin in the Dealer Member account or client's account is to be deducted from Part (i) of the excess amount calculation. The excess margin ~~must~~is to be based on the maintenance margin. ~~However, spread~~

7. **Line 3 - Concentration in individual open futures contracts and short options on futures contract positions (Notes 7 to 9)**

Line 3 requires capital to be provided to cover concentration risk in individual open futures contracts and short options on futures contract positions when the aggregate of two maintenance margin requirements on the greater of the long or the short futures contracts positions for each type of futures contract position or underlying interest of futures contract option position, held in both the Dealer Member's inventory and for all clients, is greater than 40% of the Dealer Member's net allowable assets. The concentration risk is the excess amount of those aggregate of two maintenance margin requirements over 40% of the Dealer Member's net allowable assets.

The capital to be provided is dependent on the excess amount calculation below (which allows for specified deductions and excluded positions in the related Notes below) and how quickly the Dealer Member eliminates this concentration risk.

Spread positions in the same product or different product on the same exchange and an inter-exchange or inter-commodity spread could be included using the maintenance margin as set by the exchange, provided that the spread is acceptable for margin purposes by ~~a recognized~~the applicable exchange.

The excess amount is:

(i) the aggregate of two maintenance margin requirements on the greater of the long or the short futures contracts positions for each type of futures contract position or underlying interest of futures contract option position, held in both the Dealer Member's inventory and for all clients, except for positions mentioned in Note 9; minus

(ii) 40% of the Dealer Member's net allowable assets.

~~If the excess is not eliminated within three (3)~~Margin is required on the close of the third trading ~~days after it first occurs, the Dealer Member's capital shall be charged~~day after the concentration first occurred and is the lesser of:

(~~a~~i) the excess amount calculated when the concentration first occurred; and

(~~b~~ii) the excess amount, if any, that exists on the close of the third trading day.

~~For the purpose of the concentration calculation, short futures contracts positions include futures contracts underlying the short call options on futures contracts and long futures contracts positions include futures contracts underlying the short put options on futures contracts.~~

~~**Line 3 - Concentration in individual open futures contracts and short options on futures contract positions.** The Dealer Member must provide for the amount by which;~~

~~(a) the aggregate of two maintenance margin requirements on the greater of the long or the short commodity or financial futures contracts position held for clients and in inventory, except for positions mentioned in Note 1 below,~~

~~exceeds~~

~~(b) 40% of the Dealer Member's net allowable assets.~~

8. Deductions from Part (i) of the excess amount calculation of Line 3

~~There~~(i) Any excess margin may be deducted from ~~this difference, on a per client basis,~~Part (i) of the excess ~~margin available in all accounts of the client~~amount calculation, up to two maintenance margin requirements ~~of the client's positions in the futures contracts.~~in the Dealer Member account or client's account (on a per client basis). The excess margin is to be based on the maintenance margin.

~~The excess margin must be based on the maintenance margin. However, spread positions in the same product or different product on the same exchange and an inter-exchange or inter-commodity spread could be included in both the long and short side using the maintenance margin as set by the exchange, provided that the spread is acceptable for margin purposes by a recognized exchange.~~

9. Excluded positions from Part (i) of the excess amount calculation of Lines 2 and 3

(i) Positions held in accounts of acceptable institutions, acceptable counterparties and regulated entities.

FORM 1, PART II – SCHEDULE 12

NOTES AND INSTRUCTIONS [Continued]

(ii) Hedge positions (as opposed to speculative positions), where the underlying interest is held in the client's account at the Dealer Member or that the Dealer Member has a document giving the Dealer Member an irrevocable right to take possession of the underlying interest and deliver it at the location designated by the appropriate clearing corporation.

All other hedge positions are treated as speculative positions and are thereby not excluded.

~~If the excess is not eliminated within three (3) trading days after it first occurs, the Dealer Member's capital shall be charged the lesser of:~~(iii) The following short option positions on futures contracts in a Dealer Member or client account, and provided that the pairings are acceptable for margin purposes by the applicable exchange:

(a) ~~the excess calculated when the concentration first occurred; and~~short calls or puts which are out-of-the-money by more than two maintenance margin requirements;

(b) ~~the excess, if any, that exists on the close of the third trading day.~~a short call and a short put pairing on the same futures contract with the same exercise price and same expiration month;

~~For the purpose of the concentration calculation, short futures contracts positions include futures contracts underlying the short call options on futures contracts and long futures contracts positions include futures contracts underlying the short put options on futures contracts.~~

(c) a futures contract paired with an in-the-money option;

(d) a short call (put) paired with a long in-the-money call (put);

(e) a short call (put) paired with a long (short) futures contract;

(f) an out-of-the-money short call paired with an out-of-the-money long call, where the strike price of the short call exceeds the strike price of the long call; and

(g) an out-of-the-money short put paired with an out-of-the-money long put.

10. **Line 4 - Margin on deposits with correspondent brokers**

(i) Where a correspondent broker owes assets~~,~~ (including cash, open trade equity and securities~~, owing~~) to a Dealer Member ~~from a Commodity Futures Correspondent Broker exceed~~exceeding 50% of the Dealer Member's net allowable assets, ~~any~~the excess ~~over this~~ amount ~~shall~~must be provided as a charge in computing the Dealer Member's margin required.

The assets owing to the Dealer Member are the amount of deposits before reducing this amount by the maintenance margin requirements for all open positions.

(ii) Where the net worth of the ~~Commodity Futures Correspondent Broker,~~ correspondent broker (as determined from its latest published audited financial statements~~, exceeds~~) is:

(a) greater than $50,000,000, no margin is required under this rule~~.~~;

~~Where the net worth of the Commodity Futures Correspondent Broker, as determined from its latest published financial statements, is less than $50,000,000, the Dealer Member may use a confirmed unconditional and irrevocable letter of credit issued by a US bank qualifying as an *acceptable institution* on behalf of the Commodity Futures Correspondent Broker to offset any margin requirement calculated above. The amount of the offset is limited to the amount of the letter of credit.~~

~~No~~

(b) less than or equal to $50,000,000, the Dealer Member must provide the amount calculated in Note 10(i).

(iii) Where a Dealer Member who operates its futures contracts and futures contract options business on a fully disclosed basis with a correspondent broker, no exemption from this requirement is permitted ~~for Dealer Members who operate their commodity futures contracts and commodity option on futures contracts business on a fully disclosed basis with a correspondent broker.~~

~~**Note 1:** For the purpose of the calculation of the concentration margin on individual client accounts (Line 2) and for open futures contracts and short options on futures contracts positions (Line 3), the following positions are excluded:~~

~~1.1 positions held in *acceptable institution*, *acceptable counterparty* and *regulated entity* accounts;~~

FORM 1, PART II – SCHEDULE 12

NOTES AND INSTRUCTIONS [Continued]

~~1.2 hedge positions (as opposed to speculative positions) provided that the underlying interest is held in the client's account at the Dealer Member or that the Dealer Member has a document giving the Dealer Member an irrevocable right to take possession of the underlying interest and deliver it at the location designated by the appropriate clearing corporation. All other hedge positions are treated as speculative positions and are thereby not excluded;~~

~~1.3 the following short Options on Futures Contracts Positions:~~

~~(i) either the short call or the short put where a client or Dealer Member account is short a call and short a put on the same futures contract with the same exercise price and same expiration month;~~

~~(ii) a futures contract paired with an in-the-money option provided that this pairing is acceptable for margin purposes by a recognized exchange;~~

~~(iii) a short option paired with a long in-the-money option provided that this pairing is acceptable for margin purposes by a recognized exchange;~~

~~(iv) a short option paired with a futures contract provided that this pairing is acceptable for margin purposes by a recognized exchange;~~

~~(v) an out-of-the-money short call option paired with an out-of-the-money long call option, where the strike price of the short call exceeds the strike price of the long call, provided that this pairing is acceptable for margin purposes by a recognized exchange;~~

~~(vi) an out-of-the-money short put option paired with an out-of-the-money long put option provided that this pairing is acceptable for margin purposes by a recognized exchange; and~~

~~(vii) short option, which is out-of-the-money by more than two maintenance margin requirements.~~.