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17-0069
March 30, 2017

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

The applicable securities regulatory authorities have approved amendments to Schedule 12 of Form 1 - *Margin on Futures Concentrations and Deposits* and its Notes and Instructions (collectively, the **Non-Material Amendments**). The Non-Material Amendments relate to the concentration margin calculation for futures and deposits.

The Non-Material Amendments were published for comment on June 23, 2016 in IIROC Rules Notice [16-0142](#) - *Non-material amendments to Schedule 12 of Form 1 and its Notes and Instructions* (**Notice 16-0142**). All relevant background information, including the objectives of the amendments, is set out in Notice [16-0142](#).



Comments Received

We received no comment letters in response to Notice [16-0142](#).

Appendices

Attached are the Non-Material Amendments and accompanying appendices. There have been no revisions to the Non-Material Amendments from those previously published in Notice [16-0142](#).

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 current Schedule 12 of Form 1 and its Notes and Instructions.

Implementation

The Non-Material Amendments will be effective on April 28, 2017.

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.

**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.

FORM 1, PART II – SCHEDULE 12
NOTES AND INSTRUCTIONS [Continued]

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:

FORM 1, PART II – SCHEDULE 12
NOTES AND INSTRUCTIONS [Continued]

- (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.

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](#))

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

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**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.

FORM 1, PART II – SCHEDULE 12
NOTES AND INSTRUCTIONS [Continued]

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;~~ 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) 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

FORM 1, PART II – SCHEDULE 12
NOTES AND INSTRUCTIONS [Continued]

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) 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) the excess amount calculated when the concentration first occurred; and
- (b) 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.

(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

FORM 1, PART II – SCHEDULE 12
NOTES AND INSTRUCTIONS [Continued]

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;~~

~~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~~

FORM 1, PART II – SCHEDULE 12
NOTES AND INSTRUCTIONS [Continued]

~~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.~~