INVESTMENT DEALERS ASSOCIATION OF CANADA

bulletin

ASSOCIATION CANADIENNE DES COURTIERS EN VALEURS MOBILIÈRES

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By-Laws and Regulations

Amendments to Schedule 12 of Form 1 Relating to the Margin on Commodity Concentrations and Deposits

The Board of Directors of the Association has approved amendments to Schedule 12 of Form 1 regarding the margin on commodity concentrations and deposits. The amendments are effective with the filing of the December 31 Monthly Financial Report. A copy of which is enclosed as Attachment #1 and Attachment #2.

In the previous Notes and Instructions to Schedule 12 of Form 1, it was not clear whether certain positions in futures contracts and options on futures contracts shall be included and some offset positions be excluded in the reporting to Schedule 12. The amendments will clarify the instructions in determining the positions to be included and/or excluded and reduce operational burden by simplifying the out-of-the-money categories to be reported in Schedule 12.

Kenneth A. Nason
Association Secretary

**INVESTMENT DEALERS ASSOCIATION OF CANADA
AMENDMENTS TO SCHEDULE 12 OF FORM 1 RELATING TO THE MARGIN ON COMMODITY CONCENTRATIONS AND DEPOSITS**

THE BOARD OF DIRECTORS of the Investment Dealers Association of Canada hereby makes the following amendments to the By-laws, Regulations, Forms and Policies of the Association:

1. Line 1 of the Notes and Definitions of Schedule 12 to Form 1 is amended by:

   in the first paragraph, deleting "(FC) shall be calculated as follows:" and adding "and options on futures contracts shall be 15% of the maintenance margin requirements, as required by the"; adding "futures" before 'contracts' in the third line and adding the following sentences starting the end of the forth line "For the purpose of this general margin provision, 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."

   In Line 1 (d), adding "on futures contracts" into the first line. Immediately after Line 1 (d)(i), deleting "half of a short option which is" and adding "short options on futures contracts which are"; at the end of (d)(i), deleting "requirements, but less than three;" and adding "requirements; and". In Line 1 (d)(ii), replacing "a short option which is out of the money by more than three maintenance margin requirements." with "spreads in the same options on futures contracts."

2. Line 2 of the Notes and Definitions of Schedule 12 to Form 1 are amended by

   in Line 2(a), adding "or underlying interest of option on futures" before 'contracts'. In the last paragraph of Line 2, replacing "this" by "the" in the first line, in the second line, adding "call options on" before 'futures', deleting "option" and adding "contracts and long futures" after 'futures', and after 'contracts positions' deleting "(FOC)." and adding "include futures contracts underlying the short put options on futures contracts."

3. Line 3 of the Notes and Definitions of Schedule 12 to Form 1 are amended by

   in the first line, deleting "futures option contracts" and adding "options on futures contract" before 'positions'. In the last paragraph of Line 3, adding "call options on" before 'futures' and deleting "option" after 'futures' and adding "contracts and long futures" before 'contracts'; deleting "FOC." after 'contracts positions' and adding "include futures contracts underlying the short put options on futures contracts." at the end of Line 3.

4. Line 4 of the Notes and Definitions of Schedule 12 to Form 1 are amended by

   in the first line, deleting "," after 'assets'. In the second last line of the last paragraph, deleting "futures" before 'option' and adding "on futures" after 'option'.

5. Note 1 of the Notes and Definitions of Schedule 12 to Form 1 are amended by:

   in the second line of Note 1, deleting “futures option” and adding “options on futures” after ‘short’. In Note 1 1.1 deleting “(AI)”. In Note 1 1.3, deleting “Futures Options Contracts Positions (FOC)” and adding “Options on Futures Contracts Positions” after ‘short’ in the first line. In Note 1 1.3(vi), adding “and” at the end; in (vii), deleting “half of a short” and adding “short” before ‘option’ in the first line; deleting “requirements but less than three; and” and adding “requirements;” in the second line. Further, deleting the whole Note 1 1.3 (viii) “a short option which is out of the money by more than three maintenance margin requirements.”

PASSED AND ENACTED BY THE Board of Directors this 19th day of January 2005, to be effective on a date to be determined by Association staff.

INVESTMENT DEALERS ASSOCIATION OF CANADA
AMENDMENTS TO SCHEDULE 12 OF FORM 1 RELATING TO THE MARGIN ON COMMODITY CONCENTRATIONS AND DEPOSITS
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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 maintenance margin requirements, as required by the Commodity Futures Exchange on which such 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 firm accounts. For the purpose of this general margin provision, short futures contracts positions include futures contracts underlying the short call options on futures contract and long futures contracts positions include futures contracts underlying the short put options on futures contracts.

The following positions are excluded from this calculation:

(a) positions in Acceptable Institution, Acceptable Counterparty and Regulated Entity accounts;

(b) hedge positions, provided that the underlying interest is held in the client's account at the Member or that the Member has a document giving the 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) client and firm spreads in the same futures contract 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 positions:

(i) short options on futures contracts which are out-of-the money by more than two maintenance margin requirements; and

(ii) spreads in the same options on futures contracts.

Line 2 - Concentration in individual accounts. The Member must provide for the amount by which;

(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

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

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 using the maintenance margin as set by the exchange, provided that the spread is acceptable for margin purposes by a recognized exchange.

If the excess is not eliminated within three (3) trading days after it first occurs, the Member's capital shall be charged the lesser of:

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

(b) the excess, 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 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 Member's net allowable assets.

There may be deducted from this difference, on a per client basis, the excess margin available in all accounts of the client up to two maintenance margin requirements of the client's positions in the futures contracts.

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 in inter-exchange or inter commodity spread could be included in both the long and short side using maintenance margin as set by the exchange, provided that the spread is acceptable for margin purpose by a recognized exchange.

If the excess is not eliminated within three (3) trading days after it first occurs, the Member's capital shall be charged the lesser of:

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

(b) the excess, 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 4 - Where assets including cash, open trade equity and securities owing to a Member from a Commodity Futures Correspondent Broker exceeds 50% of the Member's net allowable assets, any excess over this amount shall be provided as a charge in computing the Member's margin required.

Where the net worth of the Commodity Futures Correspondent Broker, as determined from its latest published audited financial statements, exceeds $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 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 exemption from this requirement is permitted for 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 provided that the underlying interest is held in the client's account at the Member or that the Member has a document giving the 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 firm 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;