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By-Laws and Regulations

Extending Debt Offsets to Customer Positions (Regulations 100.4A, 100.4B, 100.4C, 100.4D, 100.4E and 100.4K)

The Board of Directors of the Association has approved amendments to Regulations 100.4A, 100.4B, 100.4C, 100.4D, 100.4E and 100.4K. The amendments are effective May 1, 2008 and are enclosed.

The main objective of the amendments is to allow customers to benefit from the reduced margin requirements for a number of debt offsets that are already available to Member firms. Another objective of the amendments is to eliminate the differences between the IDA and the Bourse de Montréal margin regulations regarding customer positions in debt offsets.

Kenneth A. Nason
Association Secretary

INVESTMENT DEALERS ASSOCIATION OF CANADA
EXTENDING DEBT OFFSETS TO CUSTOMER POSITIONS (REGULATIONS 100.4A, 100.4B, 100.4C,
100.4D, 100.4E AND 100.4K)

BOARD RESOLUTION

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. Regulations 100.4A, 100.4B, 100.4C, 100.4D, 100.4E and 100.4K are amended by adding the following words immediately following the words “Where a Member”:

“or a customer”

BE IT RESOLVED THAT the Board of Directors adopts, on this 27th day of September 2006 the English and French versions of these amendments. The Board of Directors also authorizes the Association Staff to make the minor changes that shall be required from time to time by the securities administrators with jurisdiction. These amendments shall take effect on the date determined by the Association Staff.

INVESTMENT DEALERS ASSOCIATION OF CANADA
EXTENDING DEBT OFFSETS TO CUSTOMER POSITIONS (REGULATIONS 100.4A, 100.4B, 100.4C,
100.4D, 100.4E AND 100.4K)

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Offsets

100.4A. Governments, Maturity Over One Year

Where a Member [or a customer](#)

- (a) Owns securities described in clause (i) or (ii) of Regulation 100.2(a) of one maturity maturing over one year, and
- (b) Has a short position in securities
 - (i) Issued or guaranteed by the same issuer of the securities referred to in (a) (provided that for these purposes each of the provinces of Canada shall be regarded as the same issuer as any other province),
 - (ii) Maturing over one year,
 - (iii) Maturing within the same periods for the purpose of determining margin rates as the securities referred to in (a), and
 - (iv) With a market value equal to the securities referred to in (a) (with the intent that no offset shall be permitted in respect of the market value of a long (or short) position which is in excess of the market value of the short (or long) position.

The two positions may be offset and the required margin computed with respect to the net long or net short position only. This Regulation 100.4A also applies to future purchase and sales commitments.

100.4B. Governments, Maturity Within One Year

Where a Member [or a customer](#)

- (a) Owns securities described in clause (i) or (ii) of Regulation 100.2(a) maturing within one year, and
- (b) Has a short position in securities
 - (i) Issued or guaranteed by the same issuer of the securities referred to in (a) (provided that for these purposes each of the provinces of Canada shall be regarded as the same issuer as any other province),
 - (ii) Maturing within one year, and
 - (iii) With a market value equal to the securities referred to in (a) (with the intent that no offset shall be permitted in respect of the market value of a long (or short) position which is in excess of the market value of the short (or long) position

The margin required shall be the excess of the margin on the long (or short) position over the margin required on the short (or long) position. This Regulation 100.4B also applies to future purchase and sale commitments.

100.4C. Debt Securities

Where a Member or a customer has a short and long position in the following groups of securities (identified by reference to the paragraphs and clauses of Regulation 100.2) the total margin required in respect of both positions shall be the greater of the margin required on the long or short positions:

| Long (Short) | Short (Long) |
|---|--|
| (a) 100.2(a)(i) (U.S. Treasury only) | and 100.2(a)(ii) (Province of Canada only) |
| (b) 100.2(a)(i) (Canada and U.S. Treasury only) | and 100.2(a)(iii) (Canada municipal only) |
| (c) 100.2(a)(i) (Canada only) | and 100.2(a)(i) (U.S. Treasury only) |
| (d) 100.2(a)(i) (Canada and U.S. Treasury only) | and 100.2(a)(v) (corporate) |
| (e) 100.2(a)(ii) (Province of Canada only) | and 100.2(a)(iii) (Canada municipal only) |
| (f) 100.2(a)(ii) (Province of Canada only) | and 100.2(a)(v) (corporate) |
| (g) 100.2(a)(v) (corporate) | and 100.2(a)(v) (corporate) of the same issuer |
| (h) 100.2(b) (Canadian chartered bank acceptances only) | and BAX futures contract |

Where a Member or a customer has a short and long position in the following groups of securities (identified by reference to the paragraphs and clauses of Regulation 100.2) the total margin required in respect of both positions shall be 50% of the greater of the margin required on the long or short position:

| Long (Short) | Short (Long) |
|--|--|
| (i) 100.2(a)(i) (Canada only) | and 100.2(a)(i) (Canada of different maturity bands) |
| (j) 100.2(a)(i) (Canada only) | and 100.2(a)(ii) (Province of Canada of same or different maturity bands) |
| (k) 100.2(a)(ii) (Province of Canada only) | and 100.2(a)(ii) (Province of Canada only of same or different maturity bands) |
| (l) 100.2(a)(i) (Canada only) | and 100.2(a)(iii) (Canada municipal only) |
| (m) 100.2(a)(ii) (Province of Canada only) | and 100.2(a)(iii) (Canada municipal only) |

provided the foregoing offset may only be determined on the basis that:

- (i) securities described in Regulation 100.2(a)(v) (corporate) and 100.2(b) (bank paper) will only be eligible for offset if they are not convertible and have a single A or higher rating by any of Canadian Bond Rating Service, Dominion Bond Rating Service, Moody's Investors Service or Standard & Poor's Bond Record;
- (ii) securities in offsetting positions must be denominated in the same currency;
- (iii) securities offsets described in items (i) to (k) can be of different maturity bands, all other offsetting positions must mature within the same periods referred to in Regulation 100.2 for the purpose of determining margin rates; and
- (iv) the market value of the offsetting positions is equal and no offset shall be permitted in respect of the market value of the short (or long) position which is in excess of the market value of the long (or short) position; and
- (v) securities offsets described in items (l) and (m), Canada Municipal will only be eligible for offset if they have a long-term issuer credit rating of a single A or higher by any of Canadian Bond Rating

Service, Dominion Bond Rating Service, Moody's Investors Service or Standard & Poor's Bond Record.

For the purposes of this Regulation 100.4C, securities described in Regulation 100.2(b) (bank paper) are eligible for the same offsets set out above as securities described in Regulation 100.2(a)(v) (corporate).

For the purposes of this Regulation 100.4C, the term "BAX futures contracts" shall mean the three-month Canadian bankers acceptance futures contracts that trade on the Bourse de Montreal under the "BAX" trading symbol.

100.4D. **Mortgage-Backed Securities**

Where a Member [or a customer](#) holds a short (or long) position in bonds or debentures issued or guaranteed by the Government of Canada and also holds a long (or short) position in an instrument described in Regulation 100.2(h) guaranteed by the Government of Canada (a "mortgage-backed security"), the margin required shall be the excess of the margin required on the long (or short) position over the margin required on the short (or long) position, provided that the net margin may only be determined as aforesaid on the basis that:

- (a) Margin required in respect of a short (or long) position in bonds or debentures may only be netted against margin required in respect of a long (or short) position in mortgage-backed securities to the extent that the market value of the two positions is equal, and no such netting or offset shall be permitted in respect of the market value of a short (or long) position which is in excess of the market value of the long (or short) position;
- (b) Margin required in respect of bonds or debentures may only be netted against the margin required for mortgage-backed securities which mature within the same period referred to in Regulation 100.2(a) for the purpose of determining margin rates;
- (c) Notwithstanding the foregoing, if the market value of a long (or short) position in mortgage-backed securities equals or exceeds the remaining principal amount of such position and the mortgages underlying such mortgage-backed securities position are subject to being repaid with or without penalty in full at the option of the mortgagee prior to maturity, the margin required shall be the greater of the margin as determined otherwise under Regulation 100.2 for (i) the long (or short) position in mortgage-backed securities or (ii) the short (or long) position in bonds or debentures.

100.4E. **Strip Coupons or Residuals**

Government Debt

Where a Member [or a customer](#) holds a short (or long) position in bonds or debentures denominated in Canadian dollars issued or guaranteed by either the Government of Canada or by a province of Canada and also holds a long (or short) position in the stripped coupon or residual portion of such debt instruments, the margin required shall be the excess of the margin required on the long (or short) position over the margin required on the short (or long) position, provided that the net margin may only be determined as aforesaid on the basis that:

- (a) Margin required in respect of a short (or long) position in bonds or debentures may only be netted against margin required in respect of a long (or short) position in stripped coupons or residuals to the extent that the market value of the two positions is equal, and no such netting or offset shall be permitted in respect of the market value of a short (or long) position which is in excess of the market value of the long (or short) position;
- (b) Margin required in respect of bonds or debentures issued or guaranteed by the Government of Canada may only be netted against the margin required for the stripped coupon or residual coupon

of other Government of Canada instruments which mature within the same periods referred to in Regulation 100.2(a) for the purpose of determining margin rates; and

- (c) Margin required in respect of bonds or debentures issued or guaranteed by a province of Canada may only be netted against the margin required for the stripped coupon or residual portion of other province of Canada instruments which mature within the same periods referred to in Regulation 100.2(a) for the purpose of determining margin rates.

Notwithstanding the foregoing provisions of this Regulation 100.4E, where a Member [or a customer](#) holds:

- (i) A short (or long) position in bonds or debentures issued or guaranteed by the Government of Canada and a long (or short) position in the stripped or residual portion of bonds or debentures issued or guaranteed by a province of Canada, or
- (ii) A short (or long) position in bonds or debentures issued or guaranteed by a province of Canada and a long (or short) position in the stripped or residual portion of bonds or debentures issued or guaranteed by the Government of Canada,

The margin required shall be 50% of the total margin required for both positions otherwise determined under the Regulations, provided that such margin may only be determined as aforesaid on the basis that:

- (iii) Margin required in respect of a short (or long) position in bonds or debentures may only be netted against margin required in respect of a long (or short) position in stripped coupons or residuals to the extent that the market value of the two positions is equal, and no such netting or offset shall be permitted in respect of the market value of a short (or long) position which is in excess of the market value of the long (or short) position;
- (iv) Margin required in respect of bonds or debentures may only be netted against the margin required for the stripped coupon or residual coupon of instruments which mature within the same periods referred to in Regulation 100.2(a) for the purpose of determining margin rates.
- (v) The bonds and debentures and the stripped coupon or residual coupon of such debt instruments are both denominated in Canadian dollars.”

100.4K. **Government of Canada Bond Futures Contracts and Security Combinations**

Where a Member [or a customer](#) holds offset positions in Government of Canada notional bond futures contracts (including future purchase and sale commitments) and securities, described in paragraphs (a) to (e), the margin requirement for both positions shall be as follows:

- (a) a long (or short) position in a Government of Canada notional bond futures contract and a short (or long) position in the securities described in Regulation 100.2(a)(i) Canada only and same maturity band, the two positions may be offset and the required margin computed in respect to the net long or net short position only.
- (b) a long (or short) position in a Government of Canada notional bond futures contract and a short (or long) position in the securities described in Regulation 100.2(a)(i) Canada only of different maturity bands, the two positions may be offset and the required margin shall be the 50% of the greater of the margin required on the long or short position.
- (c) a long (or short) position in a Government of Canada notional bond futures contract and a short (or long) position in the securities described in Regulation 100.2(a)(ii) Province of Canada only maturing within the same or different maturity band, the margin requirement in respect of both positions shall be 50% of the greater of the margin required on the long or short position.

- (d) a long (or short) position in a Government of Canada notional bond futures contract and a short (or long) position in the securities described in Regulation 100.2(a)(iii) Canada Municipal only maturing within the same maturity band, the margin requirement in respect of both positions shall be 50% of the greater of the margin required on the long or short position.
- (e) a long (or short) position in a Government of Canada notional bond futures contract and a short (or long) position in the securities described in Regulation 100.2(a)(v) Corporate maturing within the same maturity band, the margin requirement in respect of both positions shall be the greater of the margin required on the long or short position.

provided the foregoing offset may only be determined on the basis that:

- (i) securities in offsetting positions must be denominated in the same currency;
- (ii) securities described in Regulation 100.2(a)(iii) Canada Municipal will only be eligible for offset if they have a long-term issuer credit rating of a single A or higher by any of Canadian Bond Rating Service, Dominion Bond Rating Service, Moody's Investors Service or Standard & Poor's Bond Record;
- (iii) securities described in Regulation 100.2(a)(iv) Corporate will only be eligible for offset if they are not convertible and have a single A or higher rating by any of Canadian Bond Rating Service, Dominion Bond Rating Service, Moody's Investors Service or Standard & Poor's Bond Record; and
- (iv) the market value of the offsetting positions is equal and no offset is permitted in respect of the market value of the short (or long) position which is in excess of the market value of the long (or short) position.