

IIROC NOTICE

Rules Notice **Guidance Note**

Dealer Member Rules

Please distribute internally to:

Credit
Operations
Regulatory Accounting
Senior Management
Trading Desk

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08-0074
September 4, 2008

Margining of a Security that is not Covered in Dealer Member Rule 100 or Form 1

This Notice has been prepared to provide guidance to Dealer Members on the recommended practice regarding the margining of a security that is not covered in Dealer Member Rule 100 or the Joint Regulatory Financial Questionnaire and Report (Form 1). Dealer Members should consult with IIROC staff from either the Financial & Operations Compliance Department or Member Regulation Policy Department to confirm the appropriate margin rate for the security in question.

Background and Recommendation

While Dealer Member Rule 100 and Form 1 (the Rules) set out the minimum capital and margin requirements for the vast majority of securities, there are instances in the Rules where either an individual issue or a type of security has no established requirement. Recently, this has become more of an issue with the proliferation and evolution of new structured products.

IIROC staff have become increasingly concerned about the risk analysis performed by Dealer Members on new structured products regarding their suitability for sale to certain types of clients and their margining before they are sold to clients or carried in inventory. Some Dealer Members do routinely consult with IIROC staff on these issues especially when the positions



(client or inventory) may be material, and we believe this consultation is beneficial to both IIROC and Dealer Members.

IIROC staff recommend that any Dealer Member wishing to do significant margin lending or take material capital reductions on a security that is not covered in the Rules should obtain an interpretative ruling from IIROC staff in the Financial & Operations Compliance Department or Member Regulation Policy Department on the proper capital and margin treatment before going ahead. The Dealer Member should make a written ruling request and include in its ruling request the relevant facts, its risk analysis, and margin recommendation for IIROC staffs' review and consideration.