

# IIROC NOTICE

**Rules Notice**  
**Technical**  
Dealer Member Rules

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Contact:  
Bruce Grossman  
Senior Information Analyst, Member  
Regulation Policy  
416-943-5782  
[bgrossman@iiroc.ca](mailto:bgrossman@iiroc.ca)

**20-0105**  
**May 27, 2020**

## List of Securities Eligible for Reduced Margin (LSERM)

### LSERM quarter ended March 31, 2020

Enclosed as [Attachment #1](#), is a copy of the LSERM, which has been prepared using data available for the quarter ended March 31, 2020. This list must be used to identify securities eligible for reduced margin as set out in Dealer Member Rules 100.2(f)(vi) and 100.12(a)(i) of the IIROC Rule Book [IIROC Rule subsection 5310(1)].<sup>1</sup>

A separate section of this list details those Canada/United States inter-listed securities that have qualified for inclusion on the LSERM solely because they have options issued by the Options Clearing Corporation (“OCC”) traded against them. IIROC compiles this section of the LSERM on a best efforts basis. Consequently, Dealer Members are reminded that separate from this list, securities against which

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<sup>1</sup> To assist readers, we reference applicable IIROC Rules provision (see Notice [19-0144](#) – IIROC Dealer Member Plain Language Rule Book Implementation). Since the plain language rule book is not yet effective, we shaded this reference in grey. The shading will be removed when the plain language rule book is effective.



options issued by the OCC are traded, are eligible for reduced margin as set out in Dealer Member Rules 100.2(f)(vi) and 100.12(a)(ii).

Dealer Members are reminded that for securities that are convertible or exchangeable into securities on the LSERM, margin should be calculated according to Dealer Member Rule 100.21 Maximum margin required for Convertible Securities [IIROC Rule subsection 5330(1)], which simply adds the conversion loss, if any, to the reduced margin rate.

**This list supersedes the most recently issued LSERM, effective June 18, 2020** [which is fifteen business days following the issuance date of this Notice].

### **Adjustment to LSERM price volatility margin interval methodology**

In response to the effects of the COVID-19 pandemic and the market volatility that has resulted, IIROC has made a minor revision to its price volatility calculation approach to more accurately reflect current market risk levels and to mitigate margin rate procyclicality<sup>2</sup>.

The LSERM regulatory margin interval relies on a “20, 90, 260 trading days” volatility estimator, which makes it susceptible to procyclical results, including estimating sharp increases in margin rates during high market volatility. The short time period of 20 trading days in the formula may cause inflated margin rates that are not representative of the market risk.

To mitigate procyclical effects and inflated rates, we temporarily revised the trading days considered in the regulatory margin interval calculation to reflect the most recent 45, 90 and 260 trading days (the “**adjusted method**”).

Prior to the recent market volatility, we had been reviewing our margining framework with the objective of making adjustments to that framework to mitigate margin rate procyclicality. We are implementing this interim adjusted method step until IIROC determines the formal rule amendments that are necessary to improve our margin rate setting process.

### **LSERM Modernization project update**

As indicated in IIROC Notice [19-0207](#), the LSERM modernization project is ongoing, which has objectives to:

- automate functions used to compile the list, where possible
- leverage our in-house data, including the use of consolidated volume data feeds
- update the current liquidity measure thresholds used to determine eligibility for the list.

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<sup>2</sup> Procyclicality is defined by CPSS-IOSCO as the changes in risk-management requirements or practices that are positively correlated with business or credit cycle fluctuations and that may cause or exacerbate financial instability (PFMI Principle 3, Explanatory Note 3.5.6).



For the purposes of the current list, we used the adjusted method to measure price volatility, but we have not made changes to either our existing data feeds or eligibility criteria. For reference, we provide a summary of the current eligibility criteria on the last page of [Attachment #1](#).