

IIROC NOTICE

Rules Notice Request for Comments

Dealer Member Rules

Comments Due By: August 17, 2020

Contact:

Catherine Drennan
Senior Manager, Financial Information, Member Regulation Policy
Telephone: 416-943-6977
e-mail: cdrennan@iiroc.ca

Mindy Sequeira
Senior Information Analyst, Member Regulation Policy
Telephone: 416-943-6979
e-mail: msequeira@iiroc.ca

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20-0154

July 16, 2020

Proposed Amendments to swap counterparty margin requirements

Executive Summary

On June 24, 2020, the Board of Directors (the **Board**) of the Investment Industry Regulatory Organization of Canada (IIROC) approved the publication for comment of proposed amendments to Dealer Member Rule (**DMR**) subsections 100.2(j) and 100.2(k), and IIROC Rule section 5442 that would allow a grace period in applying the swap counterparty margin requirements (collectively, **Proposed Amendments**).

The main purpose of the Proposed Amendments is to address undue burden on the Dealer Member's capital by making our Rules pertaining to margin grace period allowances more consistent and aligning with industry practice.



How to Submit Comments

Comments are requested on all aspects of the Proposed Amendments, including any matter which they do not specifically address. Comments on the Proposed Amendments should be in writing and delivered by **August 17, 2020** to:

Member Regulation Policy
Investment Industry Regulatory Organization of Canada
Suite 2000, 121 King Street West
Toronto, Ontario M5H 3T9
e-mail: memberpolicymailbox@iiroc.ca

A copy should also be provided to the Recognizing Regulators by forwarding a copy to:

Market Regulation
Ontario Securities Commission
Suite 1903, Box 55
20 Queen Street West
Toronto, Ontario M5H 3S8
e-mail: marketregulation@osc.gov.on.ca

Commentators should be aware that a copy of their comment letter will be made publicly available on the IIROC website at www.iiroc.ca.



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1. Discussion of Proposed Amendments

1.1 Exemptive relief granted

On March 26, 2020, the IIROC Board of Directors approved the offering of exemptive relief in a number of areas relating to hardships Dealer Members were experiencing in complying with DMRs with respect to the effects of the COVID-19 pandemic. The Board also approved the delegation of limited discretion to certain IIROC senior staff to assess and decide upon each firm exemption application relating to these hardship areas.

Pursuant to this delegated authority, IIROC staff granted exemptive relief to two Dealer Members from the requirements in DMR subsection 100.2(k), *Total Performance Swaps*, by granting those firms a one business day grace period to arrange for the collection of additional collateral to cover any market value deficiency amount with the counterparty before a charge to capital must be provided. If the additional collateral is not received within one business day, the market value deficiency must be included in the counterparty margin.

1.2 Proposed Amendments

There is widespread interest from Dealer Members to address the inconsistency in IIROC Rules. The Proposed Amendments seek to harmonize the relevant Dealer Member Rules by permitting the one business day relief granted for financing arrangements to apply to swap arrangements as well. Two Dealer Members have received temporary COVID-19 related exemptions to allow them to utilize the one business day grace period for swap arrangements. The Proposed Amendments will allow all Dealer Members to apply the one business day grace period and eliminate the need to approve additional exemptions or extend the exemption expiry dates.

The one business day relief is required as such margin deficiencies are not fully known until markets have closed. Where there are events triggering market volatility, the deficiency could still be significant despite any intra-day collateral collection. IIROC has been informed that, from a business perspective, it is very difficult to make a collateral call at day's end (when banks are closed).

Blackline and clean copies of the Proposed Amendments to the Dealer Member Rules and IIROC Rules are provided in Appendices 1 to 4, respectively.

2. Analysis

2.1 Issues and alternatives considered

Currently, there are inconsistencies in the Dealer Member Rules concerning the time given to correct a market value deficiency. Generally, when a Dealer Member determines its risk adjusted capital, the margin reductions are based on the margin requirements at a specific point in time. However, there



are other IIROC requirements (e.g. Schedules 1, 7, and 9 of Form 1) which allow for a grace period for Dealer Members to take action to correct a deficiency or margin requirement before a capital charge must be provided. Under these circumstances, the Dealer Member is only required to include the margin in their risk adjusted capital if action is not taken to correct the deficiency.

2.2 Schedules 1 and 7 of Form 1

The collection of collateral when there is a market value deficiency is similar for both swap transactions and financing arrangements. In a financing arrangement, counterparties are required to mark-to-market transactions daily. Within the notes and instructions to Schedules 1 and 7 of Form 1, there is an allowance for a one business day grace period, which allows the Dealer Member to collect the collateral deficiency before a capital charge must be provided. The general industry practice involves the Dealer Member identifying the amount of the collateral deficiency each morning based on the previous end-of-day reports. The deficient amount is typically collected from the counterparty within a few hours of the Dealer Member's request.

2.3 Schedule 9 of Form 1

Schedule 9 also offers a grace period which allows Dealer Members to address/reduce a concentration position within five business days. The period allows the Dealer Member reasonable time to sell positions or take other actions to eliminate the concentrated position before a capital charge must be provided.

2.4 Alternatives considered

We did not consider alternative proposals because this proposal seeks to establish consistency between similar Dealer Member Rules.

3. Impact of the Proposed Amendments

We believe that the Proposed Amendments will have no material impact to investors, the capital market structure, competition generally, the cost of compliance and conformity with other rules.

The Proposed Amendments do not permit unfair discrimination among customers, issuers, brokers, Dealers or others. Further, Dealer Members will benefit from the clarified capital requirements, which may result in a more efficient use of capital.

4. Implementation

After we receive approval from our Recognizing Regulators, we intend to implement the Proposed Amendments within 90 days.



5. Policy development process

5.1 Regulatory purpose

The Proposed Amendments are intended to achieve the following objectives:

- to address undue burden on the Dealer Member’s capital by addressing inconsistencies in our Rules pertaining to grace period allowances for market value deficiencies and
- to align with industry practice.

5.2 Rule making process

The Board of Directors of IIROC (Board) has determined the Proposed Amendments to be in the public interest and on June 24, 2020 approved them for public comment.

IIROC developed the Proposed Amendments in consultation with the Financial and Operations Advisory Section (**FOAS**) Executive Committee. The Committee supports the Proposed Amendments.

After considering the comments on the Proposed Amendments received in response to this Request for Comments together with any comments of the Recognizing Regulators, IIROC may recommend revisions to the applicable Proposed Amendments. If the revisions and comments received are not of a material nature, the Board has authorized the President to approve the revisions on behalf of IIROC and the Proposed Amendments as revised will be subject to approval by the Recognizing Regulators. If the revisions or comments are material, we will submit the Proposed Amendments including any revisions to the Board for approval for republication or implementation as applicable.

6. Appendices

[Appendix 1](#) - Blackline copy of the Proposed Amendments to Dealer Member Rule subsections 100.2(j) and 100.2(k)

[Appendix 2](#) - Blackline copy of the Proposed Amendments to IIROC Rule section 5442 (Effective December 31, 2021)

[Appendix 3](#) - Clean copy of the Proposed Amendments to Dealer Member Rule subsections 100.2(j) and 100.2(k)

[Appendix 4](#) - Clean copy of the Proposed Amendments to IIROC Rule section 5442 (Effective December 31, 2021)