

IIROC NOTICE

Rules Notice

Technical

Dealer Member Rules

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20-0167

July 28, 2020

List of Securities Eligible for Reduced Margin (LSERM) and Operational Update

LSERM quarter ended June 30, 2020

Enclosed as [Attachment #1](#), is a copy of the LSERM, which has been prepared using data available for the quarter ended June 30, 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)[IIROC Rule subsection 5310(1)]¹.

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 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 section 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 requirement.

¹ 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.



LSERM price volatility margin interval methodology

We are no longer using the “adjusted method” for calculating price volatility as detailed in IIROC Notice [20-0105](#). We intend to continue to use our current non-adjusted method to calculate LSERM price volatility margin intervals until IIROC determines the formal rule amendments that are necessary to address procyclicality².

This list supersedes the most recently issued LSERM, effective August 19, 2020 [which is fifteen business days following the issuance date of this Notice]. For reference, we provide a summary of the eligibility criteria on the last page of [Attachment #1](#).

LSERM Modernization project update

As indicated in IIROC Notice [19-0207](#), we have recently undertaken a project to modernize the processes and procedures used to produce the LSERM. We have taken steps to automate key functions where possible, and, as part of this process, we were able to source more relevant underlying data such as consolidated volume feeds. We also reviewed the liquidity measures for determining LSERM eligibility to ensure these thresholds reflect the current Canadian market.

Enhanced quality of volume data

We are now leveraging our in-house data including consolidated volume data feeds for multiple Canadian exchanges. As a result, securities from all Canadian exchange markets whose listings are eligible to be carried on margin (as published in Notice [20-0088](#)) are considered for eligibility on the LSERM. The LSERM includes all qualifying securities and is not divided into separate sections for each exchange.

Updated liquidity measure thresholds

We originally established the minimum liquidity and market capitalization thresholds based on primary market data for one exchange. As trading markets have expanded to additional exchanges and marketplaces, these thresholds do not reflect the current consolidated volumes and market capitalizations for exchange-listed equities. We have updated the liquidity measure thresholds, including public float and average daily trade volume, to correspond with the consolidated trading volumes data feed and better reflect the current Canadian market.

² 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).



The chart below summarizes the revisions to the liquidity measure thresholds:

Metrics	Underlying volume data	Dollar value of public float (i.e. market capitalization)	Average daily traded volume for each month in quarter	Minimum number of months in quarter (volume)	Average daily traded value for each month in quarter (<i>alternative qualifying metric</i>)	Minimum number of months in quarter (value)
Previous	Primary volume	>\$50,000,000	>=10,000	2 out of 3	>=\$500,000	3 out of 3
Revised	Consolidated volume	>\$100,000,000	>=25,000	3 out of 3	>=\$1,000,000	3 out of 3