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BULLETIN NO. 2492, JULY 22, 1998

By-laws and Regulations

Customer Margin And Segregation Requirements For Qualifying Hedge Positions In Convertible Securities - Regulations 100.4j And 2000.4

The Board of Directors of the Association has approved the attached amendments to the customer margin requirement and the customer bulk segregation calculation for an offset strategy involving both a short position in securities of an issuer company (the "underlying security"), and a long position in securities which are currently convertible or exchangeable into the underlying security (the "convertible security"), to be **effective August 1, 1998**.

A review of the existing customer margin requirement for such an offset has indicated that there are circumstances where both the margin and resultant security segregation requirement calculation are inaccurate. The attached amendments to both the customer margin requirement and the customer bulk segregation calculation have been drafted to correct these inaccuracies.

Any questions on the above should be addressed to Keith Rose, Vice President, Regulatory Policy at (416) 943-6907.

Lyn M. Gilchrist
Association Secretary

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INVESTMENT DEALERS ASSOCIATION OF CANADA
Customer Positions in Convertibles, Warrants, Rights, etc.

Regulation 100.4J is repealed and replaced as follows:

"100.4J Customer Positions in Convertibles, Warrants, Rights, etc.

Offsets in respect of the accounts of customers with positions as described in either Regulation 100.4H or 100.4I shall be permitted in the circumstances provided in such Regulations. The margin required in respect of the accounts of customers with such positions shall be equal to the excess of the market value of the long position over the market value of the securities carried short, plus the aggregate of the subscription price or other cost or charge payable in connection with the acquisition of the securities pursuant to the relevant warrant, right, share, instalment receipt or other security."

INVESTMENT DEALERS ASSOCIATION OF CANADA
Bulk Segregation Calculation

Regulation 2000.4 is repealed and replaced as follows:

"2000.4.

- (a) A Member, which holds securities of clients in bulk segregation in accordance with By-law 17.3, shall determine, for all accounts of each client, the following amounts:
 - (i) the quantity of all securities held for such accounts which are part of a qualifying hedge position;
 - (ii) the net loan value of all securities held for such accounts, other than securities referred to in subparagraphs (i), minus (or plus in the case of a credit) the aggregate debit cash balance in the accounts; and
 - (iii) the market value of all securities, other than securities referred to in subparagraph (i), not eligible for margin under Regulation 100 minus the aggregate amount, if any, by which such accounts are under-margined as calculated in subparagraph (ii).

Amounts defined in subparagraphs (ii) and (iii) shall represent the net loan value or market value, as the case may be, of securities required to be segregated by the Member in respect of such accounts. The amount of securities required to be segregated by a Member shall not, in any case, be greater than the market value of the securities held for such accounts.

- (b) For the purposes of this Regulation 2000.4, net loan value of a security means, in respect of:
 - (i) a long position, the market value of the security less any margin required;
 - (ii) a short position, the market value of the security plus any margin required expressed as a negative number; and
 - (iii) a short security option position, any margin required as a negative number.
- (c) For the purposes of this Regulation 2000.4, a qualifying hedge position means, for the all accounts of each client:
 - (i) a long position in a security; and
 - (ii) a short position in a security issued or guaranteed by the same issuer of the security referred to in subparagraph (i);

where

- (iii) the long position is convertible or exchangeable to the securities of the same class and number of the securities held in the short position; and
- (iv) the Member is using the long position as collateral to cover the short position."