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BULLETIN # 2732
May 30, 2000

By-Laws and Regulations

Replacement of the term “option eligible securities” by the term “securities eligible for reduced margin” and establishment of “List of Securities Eligible for Reduced Margin” – Form 1 and Regulation 100

The Board of Directors of the Association has approved amendments to Form 1 and Regulation 100 as well as the establishment of a new list, to be called the “List of Securities Eligible for Reduced Margin”, **to be effective with the publication of the List of Securities Eligible for Reduced Margin as at June 30, 2000**. The remainder of this bulletin provides a brief summary of the rule changes that have been made. For further details as to the history of the issue that brought about these changes and the specific amendments being made, Member Regulation Notice MR-030 should be consulted.

Amendments to Form 1 and Regulation 100 -

[A black-line of amendments is included as Attachment #1]

All the amendments to Form 1 and Regulation 100 are to change the name of securities that are entitled to a lower margin rate from “option eligible securities” to the “securities eligible for reduced margin”, with one exception. The name change was made necessary because whether or not a security will be granted a reduced margin rate will no longer be based on whether or not it is eligible to have an option listed on it. Rather “securities eligible for reduced margin” will be those which demonstrate both sufficiently high liquidity and low price volatility based on meeting specific price risk and liquidity risk measures. The one exception was that an amendment was made to reduce the minimum price per share requirement (refer to amendment to Regulation 100.12(a)(i)) from \$5.00 per share to \$2.00 per share.

Establishment of new “List of Securities Eligible for Reduced Margin”

Securities that meet specific price risk and liquidity risk measures at each calendar quarter-end, will be eligible for inclusion on a new “List of Securities Eligible for Reduced Margin”. For details of the price and liquidity risk measure, please refer to Member Regulation Notice MR-030. This list will be used as a basis for determining securities eligible for a reduced margin rate. Also, this list will replace the existing “List of Option Eligible Securities” which will no longer be produced effective as at the June 30, 2000 calendar quarter-end.

Suzanne M. Barrett
Association Secretary

INVESTMENT DEALERS ASSOCIATION OF CANADA LIST OF SECURITIES ELIGIBLE FOR REDUCED MARGIN

THE BOARD OF DIRECTORS of the Investment Dealers Association of Canada hereby makes the following amendments to the By-laws, Regulations, Forms and Policies of the Association:

1. Regulation 100.2(a) is amended by repealing and replacing subparagraph (v) as follows:

- (v) Commercial and corporate bonds, debentures and notes (not in default) and non-negotiable and non-transferable trust company and mortgage loan company obligations registered in the Member's name maturing:

within 1 year 3% of market value (*)

over 1 year to 3 years 6% of market value (*)

over 3 years to 7 years 7% of market value (*)

over 7 years to 11 years 10% of market value (*)

over 11 years 10% of market value (*)

- (*) (1) if convertible and selling over par, apply the above rates on par value and add 50% of the excess of market value over par when convertible into securities acceptable for margin purposes or 100% of the excess of market value over par when convertible into securities not acceptable for margin purposes with a minimum addition to the above rates of 10% of par value. If convertible and selling at or below par, add 10% of par value to the quoted rates;
- (2) if selling at 50% of par value or less and if rated "B" or lower by either Canadian Bond Rating Service or Dominion Bond Rating Service, the margin required is 50% of the market value. In the case of U.S.-pay securities rated "B" or lower by either Moody's or Standard & Poor's, the margin required is 50% of the market value;
- (3) if selling over par and convertible into shares which are ~~option-eligible~~ securities eligible for reduced margin as defined in Regulation 100.12 and acceptable for margin purposes, apply the above rates on par value and add 30% of the excess of market value over par, with a minimum addition to the above rates of 10% of par value;
- (4) if carried in inventory, selling over par and convertible into shares which are ~~option-eligible~~ securities eligible for reduced margin as defined in Regulation 100.12 and acceptable for margin purposes, apply the above rates on par value and add 25% of the excess of market value over par, with a minimum addition to the above rates of 10% of par value;
- (5) if convertible and a residual debt instrument (zero coupon) and the margin requirement calculated for the debt instrument pursuant to Regulation 100.2(a)(xi) exceeds the margin requirement for the instrument pursuant to this paragraph (v), margin shall be provided as required pursuant to Regulation 100.2(a)(xi); and
- (6) if convertible and a residual debt instrument (zero coupon) and the

margin requirement calculated for the debt instrument pursuant to this paragraph (v) exceeds the margin requirement under the Regulations for the securities into which the instrument can be converted, the margin required need not exceed the margin provided for under the Regulations on such other securities.

- (7) where such commercial and corporate bonds, debentures and notes are obligations of companies whose notes are acceptable notes as defined in Regulation 100.2(a)(vi) then the margin requirements in such Regulation shall apply.

2. Regulation 100.2(f) is amended by repealing and replacing subparagraph (iv) as follows:

- (iv) On securities which are described in clauses (i), (ii), (iii) and (iv) of Regulation 100.12(a) (~~Option Eligible Securities~~) (securities eligible for reduced margin), margin shall be 30% of market value.

3. Regulation 100.12 is amended by repealing and replacing paragraph (a) as follows:

(a) **Options Securities eligible securities for reduced margin**

25% of the market value if such securities are:

- (i) on the list of ~~option eligible securities~~ eligible for reduced margin as approved by a recognized ~~stock exchange ("option eligible securities")~~ self regulatory organization ("securities eligible for reduced margin") and such securities continue to sell at ~~\$5.00~~ \$2.00 or more;
- (ii) securities against which options issued by The Options Clearing Corporation are traded;
- (iii) convertible into securities that qualify under item (i); or
- (iv) non-convertible preferred and senior shares of an issuer any of whose securities qualify under item (i).

For the purpose of this Regulation 100.12(a), the Board of Directors hereby designates, as recognized ~~stock exchanges~~ self regulatory organizations, The Alberta Stock Exchange, The Montreal Exchange, the Vancouver Stock Exchange and the Investment Dealers Association of Canada.

4. Regulation 100.12 is amended by repealing and replacing paragraph (c) as follows:

(c) **Floating rate preferred shares**

- (i) 10% of market value, if any securities of the issuer are ~~option securities~~ eligible securities for reduced margin;
- (ii) 25% of market value, if no securities of the issuer are ~~option securities~~ eligible securities for reduced margin;
- (iii) if the floating rate preferred shares are selling over par, are convertible into other securities of the issuer and any securities of the issuer are ~~option securities~~ eligible securities for reduced margin, 10% of the par value and 25% of the excess of market value over par;
- (iv) if the floating rate preferred shares are selling over par, are convertible into other securities of the issuer but no securities of the issuer are ~~option securities~~ eligible securities for reduced margin, 25% of the par value and 50% of the

excess of market value over par;

- (v) 50%, if the issuer of the shares is in default of the payment of any dividend on the shares, in which case the foregoing clauses shall not apply.

For the purposes of this Regulation 100.12(c), the term "floating rate preferred share" means a special or preferred share described in paragraph (i) or (ii) of Regulation 100.2(f) by the terms of which the rate of dividend fluctuates at least quarterly in tandem with a prescribed short term interest rate and the term "~~option~~ securities eligible securities for reduced margin" shall have the meaning ascribed to it in Regulation 100.12(a)(i).

- 5. Regulation 100.12 is amended by repealing and replacing paragraph (f) as follows:

(f) **Securities Held in Registered Trader's Account**

25% of the market value if such securities:

- (i) are ~~non-option eligible securities~~ not securities eligible for reduced margin for which the registered trader has responsibility or has "on-post" trading privileges;
- (ii) have traded for a value of not less than \$2.00 per share for the previous calendar quarter.

The reduced margin rate is applicable only to a maximum total in all registered trader accounts of a Member of:

- (i) \$100,000 of market value per security if 90,000 shares or more of the security were traded in the previous calendar quarter on a stock exchange recognized by the Association for margin purposes and the National Association of Securities Dealers Automated Quotations System; and
- (ii) \$50,000 of market value per security if less than 90,000 shares of the security were traded in the previous calendar quarter on a stock exchange recognized by the Association for margin purposes and the National Association of Securities Dealers Automated Quotations System.

Margin for the excess position of market value on amounts over \$100,000 and \$50,000, respectively, shall be provided at the rate of 50% of market value for such securities. The total reduction in margin which is permitted by this Regulation 100.12(f) shall not exceed 50% of the Member's net allowable assets.

- 6. Statement B of Form 1 is amended by repealing and replacing Line 20 as follows:

STATEMENT B

NOTES AND INSTRUCTIONS

Line 20 - Items are considered unresolved unless:

- (i) a written acknowledgement from the counterparty of a valid claim has been received
- (ii) a journal entry to resolve the difference has been processed as of the Due Date of the questionnaire.

This does not include journal entries writing off the difference to profit or loss in the period subsequent to the date of the questionnaire.

Provision should be made for the market value and margin requirements at the questionnaire date on out of balance short securities and other adverse unresolved differences (e.g. with banks, trust companies, brokers, clearing corporations), still unresolved as at a date one month subsequent to the questionnaire date or other applicable Due Date of the questionnaire.

The margin rate to be used is the one that is appropriate for inventory positions. For instance, if the calculation is for ~~option~~securities eligible ~~securities~~for reduced margin, the margin rate is 25%, rather than 30%.